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The world since September 11th. How George Bush fought back and what he got wrong: leader

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Politics this week

Aug 31st 2006
From The Economist print edition

AFP

The UN secretary-general, Kofi Annan, visited **Lebanon**, Israel, Jordan and Syria and the West Bank in an effort to bolster the fragile peace in Lebanon. But Hizbullah refused to release its Israeli prisoners and **Israel's** prime minister, Ehud Olmert, rejected Mr Annan's call to lift an air-and-sea blockade, saying he would wait until all terms of the ceasefire were implemented.

The senior American general in **Iraq** said that an American-led security drive in Baghdad was reducing the sectarian bloodshed and that Iraqi forces could be running most of the country in 12 to 18 months. But nearly 50 Iraqis were killed on August 30th, mostly in Baghdad. See article

The **Ugandan** government signed a truce with the rebel Lord's Resistance Army, which has terrorised much of northern Uganda for the past 20 years. The rebels now have until September 12th to gather their forces at two designated camps in neighbouring southern Sudan before reaching a final peace settlement. See article

Thomas Lubanga, who led the Union of Congolese Patriots militia in the war-ravaged Ituri region of eastern Congo, was formally charged at the **International Criminal Court** in The Hague with recruiting child soldiers, a war crime. He is the first person to appear before the court, set up in 2002 to try genocide, war crimes and crimes against humanity.

Sudanese ministers told American officials that their government would not allow the deployment of UN peacekeeping troops in the **Darfur** region of the country, where the mandate of the current (and inadequate) African Union force runs out at the end of this month.

Officials from **Somalia's** UN-backed transitional government and its rival, the Council of Islamic Courts, which has conquered most of Somalia, met for peace talks in the Sudanese capital, Khartoum.

In **Chad**, President Idriss Déby proclaimed the start of a “revolution” by demanding the expulsion of two foreign oil companies, though he later revised his decision, demanding instead that they should pay $500m in taxes. See article

Down, but not out

EPA

George Bush went to New Orleans to commemorate the first anniversary of **Hurricane Katrina** and urged people to return to the city, which is making a patchy recovery from the flooding that followed the storm. See article

In a possible curtain-raiser to campaigning for November's mid-term elections, **Donald Rumsfeld** attacked critics of the administration's policies on Iraq and terrorism. The defence secretary accused them of appeasing a “new type of fascism” that they did not fully understand. See article

Governor Arnold Schwarzenegger, defying opposition from business lobbies and some fellow Republicans, agreed with Democrats who control the **California** legislature to cap the state's greenhouse-gas emissions and reduce carbon-dioxide emissions by 25% by 2020. California will be the first American state to impose such limits, which have been opposed by the Bush administration.

The Census Bureau reported that America's **poverty rate** had basically remained unchanged in 2005 at

12.6% of the population, marking the first time the rate has not increased since Mr Bush became president. However, the good news was tempered by a rise in the number of people without **health insurance**: 46.6m in 2005 compared with 45.3m in 2004. See article

A DNA test on **John Mark Karr** cleared him of the killing of JonBenet Ramsey in Colorado ten years ago. Mr Karr was extradited from Thailand after apparently confessing that he had killed the six-year-old beauty queen. See article

Killing the peace

International peace monitors in **Sri Lanka** accused the army of killing 17 mostly Tamil employees of a French charity. The bodies of the aid workers were discovered last month near Muttur in the north-east of the country, where there has been heavy fighting between Sri Lankan troops and Tamil rebels. The government vigorously denied the claim.

A series of small bomb-blasts hit at least 21 banks in southern **Thailand**. One person was reported killed in the blasts and dozens were injured. Islamist militants and criminal gangs have carried out similar attacks in the area.

Pakistan's prime minister, Shaukat Aziz, survived a vote of no-confidence filed by opposition politicians who accuse him of corruption. The vote came against the backdrop of an outbreak of violence in the province of Baluchistan following the killing of a rebellious tribal leader by the Pakistani army. See article

Alfredo Reinado, a former military officer in **Timor-Leste** who is blamed for last spring's unrest in the country, escaped from jail.

Winners and losers

Felipe Calderón, a conservative, saw his narrow victory in **Mexico's** presidential election all but confirmed by the federal electoral tribunal. The tribunal released the results of a partial recount, which reduced Mr Calderón's margin of victory by just 4,000 votes. It has still to rule on other claims by the loser, Andrés Manuel López Obrador, that the election was unfair. See article

An election in **Guyana** passed off peacefully, despite fears of a recurrence of violence that marred previous votes. A partial count gave victory to the president, Bharrat Jagdeo, and his People's Progressive Party, on a reduced turnout. The opposition cried fraud. See article

In another setback to the efforts of Evo Morales, **Bolivia's** socialist president, to nationalise his country's gas industry, the head of YPFB, the state oil and gas firm, was forced to resign over allegations of mismanagement.

Bombing tourists

Reuters

A group calling itself the Kurdistan Freedom Falcons claimed responsibility for a wave of bomb attacks on tourist areas in **Turkey** that claimed the lives of three Turks and injured scores of other people. America appointed a former NATO general to help tackle Kurdish rebels based in Iraq. See article

The centre-left coalition that has governed the **Czech Republic** since a general election in June fell apart. A centre-right coalition now looks set to form a government, but as it lacks a majority in parliament another election seems likely.

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Business this week

Aug 31st 2006
From The Economist print edition

Banca Intesa and **Sanpaolo IMI**, Italy's second- and third-largest banks, confirmed they were to merge and so create one of Europe's biggest financial institutions. The speed at which the banks' boards decided to combine is seen as evidence that the new regime at the Bank of Italy is encouraging consolidation in the banking industry. See article

There was further embarrassment for **BP** as it emerged that it was being investigated for allegedly manipulating crude-oil and gasoline markets (a similar inquiry is under way into BP's influence on propane prices). A series of accidents and probes over the past 18 months has harmed the company's reputation and put it in the crosshairs of America's congressmen, who will grill executives next week.

Prudential Financial's brokerage unit settled charges that it had been involved in the improper trading of mutual funds between 1999 and 2003. Several firms have been investigated by American authorities over their mutual-fund trading, but the broker, which will pay $600m to regulators, is the first to admit to “criminal wrongdoing” as part of a settlement.

Schering-Plough resolved an inquiry into its past drug-marketing practices in America by agreeing to pay $435m and admitting that it had tried to mislead the government.

Going for a song

In a challenge to the dominance of Apple's iTunes in the market for music downloads, **Universal Music** said it would make its catalogue of ditties available free on a new start-up site, **SpiralFrog**. At first available in North America, the service will require consumers to watch 90-second advertisements before downloading a tune, which can then be stored for up to six months on a computer (but can't be burned to a CD).

Another big online deal was sealed when **eBay** announced that advertising on its websites outside the United States would be handled by **Google**. The decision enables eBay to increase revenue from its internet-calling service, Skype. Google will incorporate “click to call” features on eBay's sites so that consumers can talk directly to advertisers.

The mining industry saw another blockbuster deal. **Goldcorp**, a Canadian gold-miner, agreed to acquire **Glamis Gold**, based in Nevada, for which it will pay approximately $8.6 billion.

In one of the biggest-ever leveraged buy-outs, **Kinder Morgan**, an energy distributor and pipeline operator based in Houston, accepted a sweetened $15 billion offer from a consortium of private-equity groups and investors led by its chief executive and co-founder, Richard Kinder. The company had been considering an offer since May.

Unilever, an Anglo-Dutch consumer-goods company, sold most of its European frozen-foods activities to **Permira**, a private-equity group, for *euro*1.73 billion ($2.21 billion). The sale contains several brands, including Birds Eye, but Unilever will retain its ice-cream-making businesses, such as Ben & Jerry's.

The faint watermark of change

The president of **Oji Paper** admitted that his firm's attempt to take over **Hokuetsu Paper** had failed. Oji's was the first hostile bid from a Japanese blue-chip company for a domestic rival and observers had hoped a deal would spur Japan's corporate culture to open up to Western business practices. However, Hokuetsu kept its shareholders on board by tactics that included the sale of a stake to Mitsubishi

Corporation.

Telstra's share price was turbulent after Australia's government announced a scaled- down sale of its stake in the country's biggest telecoms company. Around a third of the 51.8% stake will now be floated in the autumn in an A$8 billion ($6 billion) offering (the rest of the holding will be placed in a fund that will help pay for pensions). The decision not to sell the entire stake comes after a bad year for Telstra, which has seen its share price decline amid a regulatory imbroglio over network-access fees for its rivals.

It was reported that **RUSAL** had struck a deal to merge with **SUAL**, a Russian compatriot, and take over the aluminium assets of **Glencore**, a Swiss commodities group, thereby creating the world's biggest aluminium producer. An official announcement is not expected for some weeks.

The **price of oil** dipped briefly below $70 a barrel for the first time in over two months.

An early autumn chill

American **consumer confidence** fell in August to its lowest level since November 2005, suffering its biggest one-month drop since Hurricane Katrina. A less favourable outlook on jobs, a slowdown in the housing market and high fuel prices all contributed to the decline in optimism. See article

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The world since September 11th

Five years on

Aug 31st 2006
From The Economist print edition

How George Bush fought back against al-Qaeda's assault, and what he got wrong

IT STANDS to reason that 19 men cannot change history. But they did. Five years and two American-led wars later, the world created by the September 11th hijackers is a darker place than almost anyone predicted at the start of the new century. Al-Qaeda itself may have been battered and dispersed, but the idea it stands for has spread its poison far and wide.

The essence of that idea, so far as a coherent one can be distilled from the ferment of broadcasts and *fatwas* issued by Osama bin Laden and his disciples, is that Islam is everywhere under attack by the infidel and that every Muslim has a duty to wage holy war, *jihad*, in its defence. America is deemed a special target for having trespassed on the Arab heartland. Intoxicated by their defeat of the Soviet Union in Afghanistan in the 1980s, the jihadists are hungry to topple another superpower (see article).

This cause had deadly adherents before the attacks on the Pentagon and the World Trade Centre in 2001. Mr bin Laden issued his “Declaration of the World Islamic Front for Jihad against the Jews and Crusaders” in 1998, the year al-Qaeda bombed two American embassies in East Africa. But an honest tally of the record since September 11th has to conclude that the number of jihadists and their sympathisers has probably multiplied many times since then. It has multiplied, moreover, partly as a result of the way America responded.

Half-success in Afghanistan, total failure in Iraq

The first of the two wars George Bush launched after September 11th looked initially like a success, and compared with the second it still is. Al-Qaeda operated openly in Afghanistan and enjoyed the protection of its noxious Taliban regime, which refused America's request to hand Mr bin Laden over. America's invasion, one month after America itself had been attacked, therefore enjoyed broad international support.

The fighting ended swiftly and the political aftermath went as well as could be expected in a polity as tangled as Afghanistan's. By 2004 a first-ever free election had legitimated the presidency of Hamid Karzai. A ramshackle but representative parliament took office in 2005. The country is plagued by warlordism and the opium trade, and Taliban fighters are mounting a challenge in the south. But they do not yet look capable of dislodging the new government in Kabul.

Even though Mr bin Laden himself eluded America's forces in Afghanistan, the invasion deprived al-Qaeda of a haven for planning and training. This achievement, however, was cancelled out by the consequences of Mr Bush's second war: the invasion of Iraq in March 2003. There, three and a half years on, fighting and terrorism kill hundreds every month, providing the jihadists with both a banner around which to recruit and a live arena in which to sharpen their military skills.

Why has Iraq turned out so much worse than Afghanistan? Not only because of the familiar catalogue of Rumsfeldian incompetence—disbanding Iraq's army, committing too few American troops—but also because of al-Qaeda itself. Like most Sunni extremists, some in al-Qaeda regard Shia Muslims as virtual apostates. Abu Musab al-Zarqawi, the movement's leader in Iraq, managed before being killed last June to organise so many attacks on Shias and their holy places that after a long forbearance the Shias at last struck back, turning what had been an insurgency against the Americans and the new government into a bitter sectarian war.

Had Iraq turned out better, fewer people would have continued to complain that this war, unlike Afghanistan's, was conceived in sin. Loathsome though he was, Saddam Hussein had no link to al-Qaeda or the September 11th plot. Moreover, the pre-war claims of America and Britain that he had defied the Security Council by keeping his banned chemical and biological weapons, and continuing to seek nuclear ones, turned out to be false. In the battle for world opinion, this mistake, if such it was, had calamitous consequences.

Being unwise after the event

Mr Bush and Tony Blair tried and failed to win a clear United Nations mandate for war. By invading without one, they made themselves vulnerable to the charge that the war was unlawful. The quarrel in the Security Council widened a rift between America and Britain on one hand and France, Germany and Russia on the other. But this would have counted for much less if the weapons of mass destruction had existed. When it transpired that they did not, Muslims—and many others—began to assume that they had been just a pretext. Opinion polls show that millions of Muslims now think America's real aim in Iraq was to grab its oil, help Israel, or, just as Mr bin Laden said all along, wage war on Islam.

There were those (such as this newspaper) who supported the Iraq war solely because of the danger that a Saddam Hussein with a biological or atomic bomb would indeed have posed. But Mr Bush and Mr Blair refused after the war to be embarrassed by the absence of the weapons that had so alarmed them beforehand. They stressed instead all the other reasons why it had been a good idea to overthrow Mr Hussein. In Los Angeles last month Mr Blair argued that the invasion was all about supporting Islam's moderates against its reactionaries and bolstering democracy against dictatorship.

Such arguments no longer sell in the West, let alone the Muslim world. If it was all about dictatorship, what about the dictatorship the West continues to embrace in Saudi Arabia, and the quasi-dictatorship in Pakistan? If it was about helping Islam's moderates against its reactionaries, what is so clever about stepping in to someone else's civil war?

Besides, the horrors of pre-invasion Iraq had nothing to do with Islam's inner demons. Mr Hussein's was a secular dictatorship in which Islamists of all stripes kept their heads down. It is true, and it is commendable, that once America and Britain had toppled Mr Hussein, they helped to organise free elections. They are right to support Iraq's new government and to make the argument for democracy elsewhere in the Arab world. But portraying the whole enterprise as if it had from the start been all about an experiment in democracy just makes Muslims crosser. By what right do you invade someone else's country in order to impose a pattern of government?

Whatever else it may become, Iraq has so far been an own-goal in the battle for hearts and minds—and not just Muslim minds. The West rallied behind America five years ago. Now it is split: poll after poll shows deep distrust among America's traditional allies, distrust that makes co-operation on everything from nuclear proliferation to trade far harder. Some of this can be put down to the usual anti-Americanism, and the European politicians who have pandered to it. But Mr Bush has played, unerringly, straight into anti-Americans' hands.

One vast mistake has been his neglect of Mr Blair's advice to push seriously for the creation of a Palestinian state, instead of just saying that this was his “vision”. But worse has been his administration's wanton disregard for civil liberties. Some curtailing of freedoms was inevitable. Yet Abu Ghraib, Guantánamo, the torture memos and extraordinary rendition have not just been unAmerican and morally

wrong but also hugely counter-productive. In a battle that is largely about ideas, America seems to many to have abandoned the moral high ground and so won more recruits for the jihadists.

Your people, our people

Still, not everything has gone al-Qaeda's way either. For if, as that ferment of *fatwas* suggests, Mr bin Laden's longer-term aim was to topple the pro-American regimes in the Muslim world, and so establish a new caliphate, he has failed.

Of the 19 hijackers, 15 were Saudis, as is Mr bin Laden himself. Before 2003 al-Qaeda had not attacked the Saudi regime. However, in May of that year, just after America invaded Iraq, the organisation launched an offensive at home. Suicide-bombers attacked a housing compound in Riyadh, starting a campaign of terrorist violence that has claimed some 200 lives. Yet the regime is still standing, and so far as anyone can tell the violence has served mainly to strengthen it.

Another prize to have eluded al-Qaeda is Pakistan. Like Saudi Arabia, this is a country where Islam is central to the state's idea of itself. It is undoubtedly unstable. Pakistan teems with al-Qaeda sympathisers and other jihadists training for operations in Kashmir and beyond. Mr bin Laden himself is probably hiding there. Nonetheless, all of al-Qaeda's efforts to kill President Pervez Musharraf, or to deflect Pakistan from an American alliance that has grown steadily closer since September 11th, have so far come to naught.

As in the 1990s, when jihadists have mounted a violent challenge to the authoritarian states of the Muslim world they have been defeated. This is not only because such states possess strong instruments of repression. It is also because the jihadists' grandiose aims and gruesome methods have prevented them from turning a resentment of America into an appetite for revolution at home. It has not escaped the notice of Iraq's neighbours that most of the victims of al-Qaeda there have been fellow Muslims. *Jihad* in the abstract, or far away, may be all very well. But attacks inside countries such as Indonesia, Turkey and Jordan, where the victims were mainly Muslim, have turned local people away from al-Qaeda's cause.

If anything, that cause may have fared better in the West itself, among those whose identity as Muslims has come to take precedence over loyalty to the host country. On July 7th last year four very ordinary British-born Muslims blew themselves up on the London underground, leaving behind martyrdom tapes making it clear in homely Yorkshire accents that they saw “our people” as being at war with “your people”. British police claimed last month to have thwarted a more elaborate plot, also by British Muslims, to destroy up to ten transatlantic airliners. In June police in Toronto arrested a dozen Canadian Muslims for planning attacks, including, it is said, a plan to seize and behead the prime minister.

To many susceptible Muslims the message that the faith is everywhere under attack is evidently compelling. Jihadists are skilled at weaving the “resistance” in Palestine, Lebanon, Kashmir, Chechnya, Iraq and Afghanistan into a single narrative of persecution by the infidel. Of the 15m to 18m Muslims who live in Europe (excluding Turkey), the percentage who sympathise with the bombers is small. But the hijackers proved in America, and the train bombers of March 2004 in Madrid, that small numbers of terrorists can produce devastating results—and a few percent of 15m is still a big number.

To the secular mind, the jihadists' notion that the faith is everywhere under attack looks absurd. How can conflicts as different as those in Palestine, the Caucasus, Kashmir and the Balkans, even East Timor, be interpreted as parts of a seamless conspiracy against Islam? In Kosovo, for goodness sake, NATO intervened to protect Muslims from Christians, not the other way round. And yet a troubling recent development is the emergence in America of an equal and opposite distortion. This is the idea that it is the West and its values that are everywhere under attack, and everywhere by the same seamless front of what Mr Bush has taken to calling “Islamic fascism”, as if this conflict is akin to the second world war or the cold war against communism. “We are in the early stages of what I would describe as the third world war,” Newt Gingrich, a former Speaker of the House of Representatives, said in July.

What's new, and what isn't

It is wrong to look at the post-September 11th world this way, as if every local conflict is part of a civilisational clash. Mr Gingrich was speaking about the Lebanon war. But not every Islamist movement is

inspired by the ideas that animate al-Qaeda. In Palestine Hamas is a pious (and vicious) version of a national-liberation movement with local goals, not another front in a global fight. Ditto, more or less, Hizbullah, except that it is also a tool of Iran. And Iran itself is better understood as an assertive rising (and dangerous) power that happens to have a theocratic constitution than as an ally of al-Qaeda, whose ideas come from a separate strand of Islam.

Al-Qaeda did not invent terrorism. In its Baader-Meinhof or Shining Path or Irish or Basque or Palestinian guise, terrorism was the background noise of the second half of the 20th century. But September 11th seemed to portend something new. There was something different in the sheer epic malevolence of the thing: more than 3,000 dead, with destruction sliding out of a clear blue sky, all captured on live TV. Most previous terror organisations had negotiable demands and therefore exercised a measure of restraint. Al-Qaeda's fantastic aims—sweeping away regimes, reversing history and restoring the caliphate—are married to an appetite for killing that knows no limits. It boasts openly that it is seeking nuclear weapons.

Mass terrorism by Islamist extremists remains a danger. To say that America's mistakes have increased the threat is not to say that America caused it. It is important to remember who attacked whom five years ago. Islam had its deadly and inchoate grievances before the Iraq war and before September 11th. The world must still strive to destroy al-Qaeda and, even more, the idea it represents. But it had better do so with cleverer means than those Mr Bush has used so far.

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Italian banking

Hail Santesa

Aug 31st 2006
From The Economist print edition

A huge new Italian bank should be a consumer champion, not a national champion

IN THE past it has taken a World Cup final or a thousand red-shirted revolutionaries to unify Italy. But a group of bankers pulled off the feat this week with their proposed merger of the country's second- and third-largest banks to create a European giant worth some €65 billion ($83 billion). Politicians, bankers, industrialists and commentators put aside their differences to praise a deal that promises to break the mould of Italy's hopelessly backward-looking retail banks.

Italians are right to be cracking open the Asti. The merger of Banca Intesa and Sanpaolo IMI could indeed prove to be admirable. The new bank, in the euro area's top five, will have scope to cut costs at home and be well placed to do deals abroad. It could catalyse further mergers that would bring gains of their own. Yet, if consumers are not to be let down, Italy must understand why the creation of a big Italian bank makes sense—and it is not for the reason you often hear.

The leaning power of Intesa

Italian retail banking is in a sorry state. Before this deal the five largest banks owned less than half of the banking market, compared with roughly three-quarters in France and Britain, according to Standard & Poor's. Because Italy's banks lack scale and competition, they have failed to invest enough in technology or to cut the costs of banking for their clients. Capgemini, a consultancy, has found that Italians pay on average some €250 a year in commissions and fees, two and a half times as much as, say, Spaniards do. Mortgages are expensive. To open an account you have to fill out endless forms.

That is a burden the struggling Italian economy can ill afford. To his credit, Mario Draghi, the newish governor of the Bank of Italy, called for banking consolidation earlier this summer. In contrast to his meddling predecessor, who resigned in disgrace amid criminal investigations into a takeover, Mr Draghi said he would allow bids—even foreign ones.

The obstacles are formidable, however (see article). Some Italian banks are protected by shareholder pacts, which can create a blocking vote; others are dominated by foundations, which fear seeing their influence diluted by mergers; then there are dozens of *banche popolari*, which award a single vote to each shareholder, further stymieing consolidation.

In the impending Intesa-Sanpaolo deal the banks harnessed political support to outmanoeuvre their shareholder pacts—so these obstacles can be overcome. Unfortunately, many Italians back the deal chiefly because it has created a second world-class Italian bank alongside UniCredit. “Instead of always being the prey,” said Romano Prodi, Italy's prime minister, “I would like, once in a while, also to be the predator.”

That sentiment threatens to undermine the new bank's real value to Italy. A big national deal makes sense because it could create at least €1 billion of annual synergies—more than a cross-border one would. These will come only if politicians let the bank close branches and make clerks redundant. They should welcome the new bank not as a national champion, but as an example of efficiency others feel bound to follow.

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Synthetic biology needs to be monitored, but not stifled

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THERE will be no thunderstorm, no bolts of lightning channelled through giant switchgear, and definitely no hunchbacks called Igor. But sometime soon a line will be crossed in a laboratory somewhere and the first unarguably living thing created from scratch by the hand of man will divide itself in two and begin to reproduce. When it does so, it will abolish, once and for all, a distinction as old as human thought: that between animate and inanimate matter.

It is not considered polite, in the circles of synthetic biology as the subject is known, to mention the “F” word. Yet behind almost every discussion of the ethics of modern biology lurks the grinning spectre of Mary Shelley's novel, “Frankenstein”, a parable on the unintended consequences of creating life. In truth, there is not much that is ethically dubious about making a bacterium from scratch. Making life is less worrying than modifying life—and modifying it in ways that are accidentally or deliberately harmful to mankind.

Synthetic biology is more than the mere tinkering of biotechnology. That just moves single genes around. Synthetic biologists plan to move lots of genes and to industrialise the process in a way that will let people order biological parts as routinely as they order electrical components. If this vision is realised (and there is still a long way to go) biotechnology will become a true branch of engineering, with benefits for industry, medicine and agriculture (see article and article). But biotechnology will also become a game that almost anyone can play—for fun or profit; recklessly or responsibly; for good or ill.

Just as computing created a generation of bedroom and garage hackers in the 1980s, so synthetic biology will attract its hackers, too. That is already starting to happen and will happen more as the technology for synthesising DNA becomes cheaper. Generally, that is a good thing. The world has much to gain from an explosion of creativity similar to the computer boom sparked by those hackers when they reached working age. But as the benign hobby of computer hacking generated a small coterie of malicious hackers (or crackers, as they are known in the trade), so biological hacking risks generating biological crackers. To say nothing of the threat of political terrorism or the accidental release of experimental organisms.

Unbinding Prometheus

Synthetic biologists, still a small group, are aware of these risks and are already thinking about how to counter them. They know that if their field is to be accepted by a suspicious public they must invite scrutiny, rather than merely tolerating it. Some self-regulation is in place. Many firms that make DNA to order screen the requests they receive to see if they match known pathogens. A report on the ethical issues, commissioned by scientists and paid for by the Sloan Foundation, should be released soon. Nevertheless, considering the brouhaha that surrounds genetic engineering, synthetic biology has stirred up surprisingly little wider debate. What the scientists are afraid of is an unforeseen accident and its sudden regulatory consequences amid confusion and half-truths.

The risks this new field brings are real, but they should neither be exaggerated nor obscure its huge promise. At the moment a bioterrorist would be better advised to use an existing “weaponised” pathogen (there are plenty) than to make a new one from scratch. For a laboratory organism to survive in the harsh Darwinian outside world, it would have to be very carefully crafted indeed. That may change, and the world may well one day need a system of rules and controls. But “Frankenstein” was only a novel. Though it may have frightened people at the time, it has not come true. With a little forethought and oversight, fears about synthetic biology should turn out to be equally unfounded.

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The Kurds

The riddle of self-determination

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The Kurds have been ill-treated, but autonomy, not independence, looks sensible for now

NOTHING justifies violence deliberately aimed at civilians, which is what Kurdish terrorists perpetrated this week in Turkey, killing and maiming a clutch of foreigners and locals with bombs in buses and other public places across the country. If, as seems probable, a group with ties to the Kurdistan Workers' Party (PKK) was responsible, it is time for outsiders, including Americans, Europeans and even the Kurdish authorities in next-door Iraq, where the rump of the PKK has its haven, to club together to squeeze it out of business; the Americans have appointed a former NATO commander, General Joseph Ralston, to help co-ordinate such a task (see article).

It is also likely that the atrocities will tempt Turkey's government to clamp down again on non-violent campaigners for greater Kurdish rights. That would be unwise. But it is hard to determine precisely what degree of freedom the region's assorted Kurds, in Turkey and elsewhere, do deserve, and to what extent they should be able—or be encouraged—to enjoy self-government in a swathe of the Middle East that is already a tinderbox of ethnic and sectarian rivalry.

The Kurds number at least 25m in the four main countries that host them: Turkey has at least 14m, Iraq more than 5m, Iran some 4m and Syria nearly 2m. They claim to be the world's largest ethnic group without a state of their own. They have had rotten luck, as victims of broken treaties and false promises over the past century and more. In the Arab world, and among Persians too, they receive notably little sympathy.

Turkey, with the biggest Kurdish population in the region, has been the prickliest about its Kurds. Those who peacefully argued merely for cultural rights were once liable to be locked up. More recently, however, with an eye to joining the European Union, Turkey has begun to treat its Kurds a lot better, even though it still has far to go before they gain the sort of rights that national minorities expect in western Europe—including the right to ask for an independent state (“promoting separatism” is a criminal offence). At the same time it must be acknowledged that the PKK, though its leaders now say they want to engage in peaceful politics and have apparently denounced this week's bombings, has been a brutally anti-democratic terrorist outfit, undeserving of much compassion.

But things have changed

Thanks to the entrenchment of an autonomous Kurdish region in Iraq, replete with parliament, army and flag, Kurdish pride and confidence have soared everywhere, making Turks and also Iranians even twitchier. Though some very tricky issues are still to be resolved between Iraq's Kurds and Arabs, especially the status of the oil-rich, ethnically mixed city of Kirkuk, the Arabs, especially the Shia majority, are coming round to accepting that Iraq's Kurds will retain their extreme autonomy. Turkey's government, too, seems readier to accept the reality of an autonomous Kurdistan in a federal Iraq, even though the recent bombings are bound to stir anti-Kurdish feelings anew. For their part, many Iraqi Kurds in their hearts want independence, but their top leaders seem genuinely to accept that federalism must suffice.

But why should Kurds not have independence, like every other nation, if they want it? In an ideal world, they should. Sadly, the world in which they live is far from ideal, and is likely to remain so; and violently seeking to overturn it is a recipe for misery all round. Conceivably, in the very distant future, stable and

tolerant Middle Eastern states may allow their Kurds to break free, just as the English may perhaps one day wave goodbye to the Scots or the Spaniards to the Basques. In fact, most Turkish Kurds, while hoping for cultural freedoms, want to remain Turkish citizens; many have been happily assimilated. Depending on how the authorities in Damascus and Tehran treat them, the same may be true of Syrian and Iranian Kurds. The Iraqi example has made all Kurds at least contemplate a prouder future. But for the foreseeable future, autonomy, not independence, is by far the most sensible aim.

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About sponsorship

On emissions offsets, Slovakia, California's prisons, Assyrians, Cuba, cowboys

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Standard procedure

SIR – You provided a useful insight on the growing market of emissions offsets ("Sins of emission", August 5th). However, it is shortsighted of you to dismiss as "irrelevant" both the public consultation process and the use of preferred technologies when drawing up carbon-offset standards. Carbon-offset projects present reputational risks and opportunities—both for those organisations that support a standard and for companies that seek to buy offsets from these projects. For example, a company sourcing credits from a hydro plant that turns out to have been involved in some kind of corruption or ends up destroying local fishing runs a reputational risk irrespective of the quality of carbon accounting. Methods that manage this risk, such as public consultation, can hardly be described as irrelevant.

Liam Salter
Head, WWF Hong Kong Climate Programme
Hong Kong

SIR – Why should we have carbon offsets when we could have carbon taxes? I smell a rat. Basic economics says that if polluters were required to pay for the social cost of their own pollution they would generate efficient levels of output and make efficient investments in devices that reduce pollution levels. Why should we replace such a simple and straightforward system with elaborate and confusing contracts involving theoretical pollution levels that would have been produced in alternative universes? This can only lead to subterfuge, corruption and inefficiency.

Charles Cohen
Boston

Slow progress in Slovakia

SIR – You may be a little too sanguine about the prospects of Robert Fico's new coalition government in Slovakia ("Iffy and whiffy", August 12th). It is not likely that the Slovak National Party and its hardline nationalist leader, Jan Slota, will be shunted to one side: Mr Slota retains strategic oversight of the coalition and the ministries that will be controlled by his party are hardly marginal. He has the opportunity to do lots of damage through his party's influence at the ministry of education and in regional development funding, both of which could hurt Slovakia's Hungarian and Roma minorities. The atmosphere is already poor and unlikely to improve.

György Schöpflin, MEP
Fidesz-Hungarian Civic Union
Brussels

Jail time

SIR – As someone with 30-years experience as a law-enforcement officer I take issue with some of the facts presented in your article on California's overcrowded prisons ("Packing them in", August 12th). For instance, California's recidivist rate is not "sky-high" simply because of overcrowding. A bigger factor is the drug habit that most inmates retain, prior to, during and after incarceration. It has not been my

experience that parolees are sent back to prison for simply “missing a drugs test”. Quite the contrary.

My colleagues and I are constantly amazed at how parolees can remain free after repeatedly testing positive for drugs. Even when offered treatment, most squander the opportunity. Moreover, parolees routinely escape sentences for their newly committed crimes by volunteering to “get rolled up” and returned to prison for six months for violating their previous sentence. Prosecutors reluctantly give in to such deals because of overwhelming caseloads and lack of courtrooms to try cases.

Eugene Lane
Santa Rosa, California

SIR – Admittedly drug use does great harm, but the insane “war on drugs” does not ameliorate that harm one iota and ruins many lives through imprisonment. We could reduce the use of drugs far more by diverting a tenth of what we spend on incarcerating drug users towards treatment programmes. The savings could be directed at fighting genuine crimes. Ending this absurd anti-human drug war would go far in fixing California's prison problems—and many others too.

Frank Robinson
Albany, New York

Iraq's forgotten minority

SIR – When describing the various peoples taking refuge in northern Iraq you referred to every group by its ethnic nomenclature, except for one (“From killing zone to safe haven”, August 12th). Assyrians are the indigenous people of modern Iraq and have their own claims to political and geographical rights. Their history stretches back 6,000 years and encompasses the world's first civilisation as well as numerous advancements in science, technology and literature. The ancient Aramaic language is still spoken by Assyrians today. Yet although they constitute some 5% of the Iraqi population Assyrians are struggling to gain administrative control of the heart of their ancestral homeland, the Nineveh Plains, where their villages still flourish. Assyrians are predominately Christian, just as Kurds and Arabs are predominately Muslim, yet we recognise Kurds and Arabs as separate ethnic groups. Denying Assyrians their recognition on the same par is unjustified.

Paul Isaac
Washington, DC

Overdue

SIR – Your article on the attempt to take the book “Vamos a Cuba” off school library shelves is oddly sympathetic to what is in fact a piece of propaganda for Fidel Castro's communist regime (“Let's ban a book on Cuba”, August 5th). The assertion that the Miami-Dade school board is attempting to “ban” the offending book is simply not true. A ban implies some sort of legal penalty for selling or reading the book; all the school district wants to do is remove an inaccurate and objectionable book from its shelves. All libraries have to be selective about the books they own, if only for the limitation of shelf space. Imagine if a maths book was discovered to contain factual errors and consequently discarded in favour of more accurate material. Would you say the library had banned the book? Or consider a history book for children that attempted to portray slavery in a positive way? Would there be much fuss, except perhaps from the Ku Klux Klan, at the book's removal? I very much doubt it, and I think that the double standard you used reflects an inexplicable sympathy with Cuba's oppressive dictatorship.

Scott Bennett
Northville, Michigan

Damn varmint!

SIR – I believe you have confused “cattle-wrangling” with “cattle-rustling” in Arizona (“Newcomers don't like the smells”, August 12th). Cattle-wrangling enables one to manoeuvre a herd from one place to another. Cattle-rustling, which you said was available as a course for novice cowboys, is the stealing of a herd from your neighbour's ranch. Cattle-wranglers are generally good guys. Cattle-rustlers are, to misquote John Wayne, a thieving pack of scoundrels. While things here in the United States have deteriorated a bit of late, hopefully we have not reached the point of teaching our cowboys to rustle. The Duke's 1972 film, “The Cowboys”, is a good one to rent if any of your readers need further elucidation.

Philippa Straus
Birmingham, Alabama

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September 11th 2001

America's longest war

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AP

A nation once joined together in shock and vulnerability is now riven by failure and recrimination

ON THE morning of September 12th 2001, Americans woke up to a changed country. They had seen the twin towers of the World Trade Centre reduced to rubble, the Pentagon aflame and a field in Pennsylvania transformed into a graveyard. Almost 3,000 people had been killed and twice as many injured, in the bloodiest day on American soil since the battle of Antietam in 1862. They had seen their president—the most powerful man in the world—flitting from pillar to post. And they had seen the face of a new enemy. Before September 11th few people even in the administration had heard of al-Qaeda. After that day there was no getting away from the images of Osama bin Laden and his agent, Mohammed Atta.

That September 11th changed America dramatically is hardly open to debate: George Bush's presidency has been about little else since then. But some of the changes have been unexpected. Who would have guessed, as a shocked country rallied round the flag, that five years later partisan divisions would be deeper than ever? Who would have guessed, as the president pledged that “the people who knocked these buildings down will hear all of us soon,” that five years later Mr bin Laden would still be at liberty and America would be bogged down in Iraq?

The immediate result of September 11th was a surge in national unity. The country was draped in flags. Wal-Mart sold 116,000 of them on September 11th and 250,000 the day after. The mood killed partisan politics. Congressman Dick Armey, a firebrand conservative, put an arm around Maxine Waters, a firebrand congresswoman on the left. Mr Bush embraced Tom Daschle, the Democratic leader, on the Senate floor. Conservatives denounced Jerry Falwell and Pat Robertson, two evangelical broadcasters, for entertaining the notion that September 11th was God's punishment of “the pagans, and the abortionists and the feminists and the gays and lesbians”. Leftists excoriated Susan Sontag for implying that the assault was payback for America's crimes.

AP

The attacks brought an abrupt end to the “holiday from history” that followed the fall of the Soviet Union. They also brought an abrupt end to America's sense of invulnerability: for all its military might and oceanic moats, the country was wide open to attack from fanatics living in caves in Afghanistan.

All this produced a mood of soul-searching. A *Newsweek* cover article asked, “Why do they hate us?” and books on Islam topped the bestseller lists. It also produced something more visceral: a desire for revenge. Three days after the attacks the congregation in the National Cathedral in Washington, DC, concluded a memorial service for those who had died with the “Battle Hymn of the Republic”.

The administration capitalised on the more vengeful mood to produce a wide-ranging response. On September 11th Mr Bush concluded that America was at war. That day, too, he stated that he would make no distinction between terrorists and those who harboured them. This rapidly became the “Bush doctrine”. America would not wait for the next attack: it would take the war to the enemy. That did not mean al-Qaeda alone. Any state sponsoring terrorists or supplying them with weapons of mass destruction (WMD) would be dealt with, even before the threat was fully developed. And America would not simply treat symptoms. It would tackle the causes of Islamic terrorism.

Strong, but vulnerable

AP

The doctrine drew on two contradictory beliefs: that America was mighty enough to reorder the world and that it was vulnerable to still worse attacks. Vice-President Dick Cheney then enunciated his own policy, known as the “1% doctrine”: if there were even a 1% chance of terrorists getting hold of WMD, America would act as if it were a certainty.

September 11th gave an enormous boost to Mr Bush. In the aftermath of the attacks, the percentages of Americans who told pollsters they approved of him shot up from the 50s to the 90s, the highest scores ever recorded for a president. His ratings remained above 60% for 16 months, the longest boom in presidential popularity since the second world war. And September 11th strengthened Mr Bush in a more personal way: the frat boy who had grown up in the shadow of his over-achieving father acquired a new steel and a new determination.

The administration relentlessly used the president's popularity to strengthen the power of the executive. In the wake of

September 11th it engineered the biggest expansion in executive power since the days of Franklin Roosevelt. Mr Bush declared himself a “war president”. And he took a series of decisions that were to come back to haunt him—from monitoring telephone calls without explicit approval from the courts to establishing military tribunals. Even when he was guaranteed a rubber stamp from a compliant Congress, he preferred to go it alone. Chuck Hagel, a Republican senator, grumbled that the administration treated Congress like a “constitutional nuisance”.

Reporting for defeat

At the same time September 11th strengthened the Republicans while weakening the Democrats. In the second half of the 20th century the Republicans had come to be seen as the more trustworthy party in matters of national security. In 2001 the Democrats were conscious of that but could not decide what to do about it. First, they tried to change the subject to their strong suits, health and education, and then, when they chose John Kerry to be their presidential candidate, overcompensated by turning their 2004 convention in Boston into a Vietnam veterans' rally. There Mr Kerry, saluting his audience, introduced himself with the words, “Reporting for duty.”

The Republicans made strong advances in the 2002 mid-term elections, solidifying their control over the House and capturing the Senate. It was only the third time since the civil war that the president's party had gained seats in mid-term elections. And Mr Bush won the 2004 presidential election with more votes than any president in history. September 11th drove both victories. When it came to “keeping America strong”, the opinion polls showed the Republicans with a lead of almost 40 points in 2002. At the Republican convention in New York two years later, every speaker, most powerfully Rudy Giuliani, who had been the city's heroic mayor in 2001, invoked the lessons of that day of fire.

The bipartisan feelings that followed September 11th could hardly have lasted for ever. But it is still surprising how far the warm courage of national unity has turned into fiery partisanship. The change was first seen in Howard Dean's revolt against the Democratic establishment as he sought the party's presidential nomination—an establishment which, in his view, had allowed Mr Bush to turn the terrorist attacks into a carte blanche for his party. And it continues to drive not just politics but also popular culture. Neil Young, whose 2001 song “Let's Roll” paid tribute to the bravery of the passengers who stormed the hijackers on the flight that crashed in Pennsylvania, is now singing about impeaching the president.

The main cause of this partisanship is the Iraq war, which is proving even more divisive than Vietnam. Immediately after September 11th Americans were ready to blame Saddam Hussein: in a poll taken two days later 34% of respondents thought it “very likely” that he had been personally involved and 44% thought it “somewhat likely”. Large majorities of both political parties—80% of Republicans and 69% of Democrats—backed the war with Iraq.

But conservative hawks were always keenest on making the link. At a meeting in Camp David just after September 11th Paul Wolfowitz, the deputy defence secretary, argued three times that America should attack Iraq rather than Afghanistan. And many Democrats were always sceptical: 126 Democratic House members and 21 senators voted against the Iraqi war resolution in October 2002. Democratic opposition to the war expanded as America failed to get UN approval for deposing Mr Hussein. And it turned to fury when America failed to find WMD or to quell the resistance. Today nothing inspires more anger on the left than the belief that Mr Bush exploited September 11th to justify long-laid plans to remove the Iraqi president.

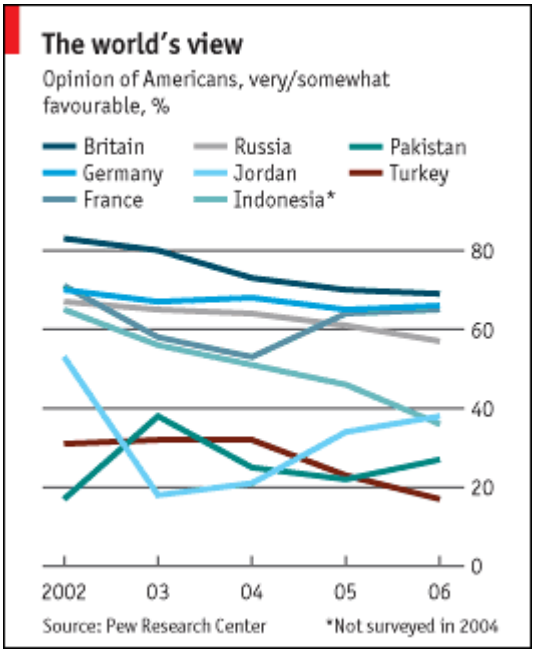
Still, there is more to America's polarisation than Iraq. The partisanship has been partly driven by political opportunism, as the Republicans have tried to turn September 11th into a vote-winner. How could the Democrats forgive the Republicans for branding Max Cleland, a man who lost three limbs in Vietnam, as being too soft on terrorism to be worthy of re-election to his Georgia Senate seat in 2002? But the split has also been driven by deep philosophical differences, briefly suppressed, about America's

role in the world.

Might isn't right

The American left, in particular, has reverted to its pre-September 11th, and perhaps even pre-Clinton, suspicion of American power. A survey conducted by the Massachusetts Institute of Technology in November 2005 found that only 59% of Democrats still supported the decision to invade Afghanistan, compared with 94% of Republicans. A survey by the Century Foundation asked left-wingers and conservatives to rate their two main foreign-policy goals. Conservatives put destroying al-Qaeda at the top of their list; leftists put it at number ten.

It is tempting to argue that the most remarkable thing about September 11th, five years on, is how little it has changed America. Many features of the political landscape are much as they were on September 10th—a polarising president, an electorate divided almost 50-50 in terms of party allegiance, a Republican Party that loves to wrap itself in the flag and a Democratic Party more worried about outsourcing than terrorism. But look more deeply and you find dramatic changes.



The main one is a new emphasis on national security. In 2000, despite a series of increasingly devastating terrorist attacks, including the first bombing of the World Trade Centre, only 12% of Americans cited “world affairs” as a “paramount issue”. Today they are central.

The shadow of September 11th will hang over the mid-term elections. Ken Mehlman, the chairman of the Republican National Committee, argues that the big question in November is, “Do you believe we're at war?” The Democrats fight back by arguing that, thanks to his war in Iraq and neglect of security at home, Mr Bush is making America less safe.

September 11th may also hang over the 2008 presidential election. John McCain (tortured by the Vietnamese) and Mr Giuliani (a stirring September 11th performance), two of the Republican front-runners, boast perfect credentials for the new terror-racked world. Hillary Clinton, the Democratic front-runner, has been burnishing her own tough-gal credentials on the Senate Armed Services Committee.

The concentration on national security reflects a second big change: America's new but continuing sense of vulnerability. This has deepened over the years. The war in Iraq has proved how difficult it is for America to use its military might to change the world. The fiasco of failing to find any WMD in Iraq underlined the weakness of its intelligence services. The response to Hurricane Katrina showed dramatically what several congressional reports had already pointed out: that the administration had done little to prepare for another catastrophic attack.

Lastly, September 11th has turned the Bush presidency into a big deal. Before the aircraft struck, Mr Bush looked like a small-bore president—divisive, to be sure, but divisive about little things. On the morning of September 11th Mr Bush was reading “My Pet Goat” to a class of second-graders. His speech-writer, Michael Gerson, was working on a speech on “Communities of Character”. America is now as divided as possible about Mr Bush. His supporters regard him as a “transformative” figure like Ronald Reagan. His critics view him as a catastrophe—possibly the worst president in American history, according to Sean Wilentz, a Princeton historian. But, thanks to September 11th, nobody can dismiss him as a mere footnote.

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Civil liberties

The freedom paradox

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Liberty has been the first victim of the war fought in its name

“WE HAVE entered a new type of war. It's a war against people who hate freedom,” said George Bush a few days after September 11th 2001. “We're fighting for liberty and freedom.” But this new kind of war seemed to need a new kind of response, one that has actually reduced freedom.

“We will change the rules,” said Donald Rumsfeld, America's defence secretary. “Let no one be in any doubt, the rules of the game are changing,” echoed Tony Blair after the bombings in London last year. “Civil-liberty arguments”, his home secretary, John Reid, added recently, “are not so much wrong as just made for another age.”

Since 2001 many countries have pushed through repressive laws in the name of the war on terror—but few as eagerly as America and Britain. America first rushed through the Patriot Act. The authorities' powers to snoop on American citizens were vastly increased. Agents armed with a court warrant could now eavesdrop on private telephone calls, read e-mails, pry into library records, bank statements, medical records and suchlike without needing to show “reasonable suspicion”. At the same time, in an apparent breach of the law, George Bush secretly authorised his own warrantless domestic surveillance programme. He was, he said, acting in his constitutional capacity as wartime commander-in-chief.

Hundreds of foreigners, most of them Muslims, were rounded up after September 11th and held without charge, sometimes for months. Tens of thousands more were called in for questioning and finger-printing. Not a single terrorist was found. Then came the creation of a detainment camp in an American naval base in Guantánamo Bay in Cuba, which Mr Bush argued was beyond the reach of the American courts. There hundreds more suspected terrorists, captured abroad, were interned in a legal limbo, without charge, without access to lawyers or conventional courts, and without prospect of release in a never-ending war. Others have experienced “extraordinary rendition”, that is, they have been spirited away by the CIA for harsh interrogation in secret prisons in third countries where even the International Red Cross has no access.

America has been lambasted for its record on human rights since September 11th. So has Britain. It has introduced a slew of draconian anti-terrorist measures over the past five years, and is planning more. The mere “glorification” or “indirect incitement” of terrorism is now a crime. Suspected terrorists can be held for up to 28 days without charge—longer than in any other democratic country—a period the government now wants to double. (In America suspected terrorists whom Mr Bush deems to be “enemy combatants” may be held “for the duration of hostilities”.) Those unable to be tried in court (usually for want of evidence) may now be subjected to “control orders”, ranging from electronic tagging to little short of house arrest, imposed on the simple say-so of the home secretary for indefinitely renewable periods of 12 months.

Britain's judges have now ruled in favour of some suspected terrorists, detained pending deportation. And America's Supreme Court has granted Guantánamo's inmates certain protections, including the right to challenge their detention in court, the right to be treated humanely under the Geneva Conventions and, for the few that have been charged, the right to a fair trial.

The looming police state

Yet the critics remain unhappy. By abandoning the very values they are seeking to protect, America and its allies are in danger of winning a pyrrhic victory, civil libertarians protest. “It is the response to terrorism, rather than terrorism itself, that does democracy most harm,” Michael Ignatieff, a former head

of Harvard's centre for human rights, argues. Bruce Ackerman, a professor of law at Yale, castigates Britain in his new book, “Before the Next Attack”, for its “tragic slide to a police state”. He accuses America of moving “one step at a time toward a presidential tyranny”. But others, like John Podhoretz, a columnist for the *New York Post*, maintain the opposite. “What if liberal democracies have now evolved to a point where they can no longer wage war effectively because they have achieved a level of humanitarian concern for others that dwarfs any really cold-eyed pursuit of their own national interests?” he asks.

For the moment those who would restrict freedom appear to have the public on their side. Recent polls in Britain and America suggest that most people still feel their governments are not doing enough to counter terrorism.

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The Middle East

A big and then a bigger mess

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AP

Chaos in Iraq, a war in Lebanon, stalemate between Israel and Palestine, new boldness in Iran and only faltering growth in democracy

THROUGH the window a giant plume of smoke drifted behind a wall of tall buildings. A television in the office showed a jagged moonscape of smouldering concrete. “Just like Ground Zero, no?” said the newspaper editor drily. It was Beirut last month. The comment seemed out of place. The attack on New York's World Trade Centre, after all, came from a blue sky in a country at peace with the world. The bombing of Beirut's suburbs was instead an ugly episode in the latest of many nasty little Middle Eastern wars.

But then again, hadn't George Bush declared Israel's fight with Hizbullah to be part of his global war? And, for his part, hadn't Osama bin Laden stated that what inspired him to hit America was memories of an earlier Israeli bombardment of Beirut, in 1982? “As I looked at those destroyed towers in Lebanon,” said the al-Qaeda leader in a 2004 tape, “it occurred to me to punish the oppressors in kind by destroying towers in America, so that it would have a taste of its own medicine.”

Back in 2001 some in the Middle East shared Mr bin Laden's feeling, and showed it by cheering on September 11th. Many more disagreed, including, for example, Muhammad Hussein Fadlallah, the most popular Shia cleric in Lebanon. Whatever our differences with American policy, he said, the assaults that day were criminal, barbaric and a stain on Islam.

Al-Qaeda's attacks did not themselves change the Middle East, but the intervening years certainly have. The most perceptible change is that more people now share Mr bin Laden's feeling that Islam is under attack, and that America is their enemy.

In a recent sermon about the war in Lebanon, Mr Fadlallah expressed this view succinctly: “This was an American war carried out by Israel to execute arrogant American plans to establish political, economic and military hegemony over the entire region.” The same angry message echoes across the Arab and Muslim worlds. The antipathy is not merely political. An opinion poll in April, for instance, suggested that 90% of Iraqis would refuse to live next door to Americans.

Things were not meant to turn out this way. For a time, it did not seem that they would. America's swift intervention in Afghanistan, in November 2001, bothered many Muslims, if only because it evoked memories of colonial invasions. But that battle was quickly won, and most were quietly glad to see the obscurantist Taliban defeated. In subsequent years, as al-Qaeda affiliates committed terrorist outrages in several Muslim countries, from Indonesia to Morocco, public support for firm action against them swelled, and Mr bin Laden's star declined. The Bush administration's “Forward Strategy for Freedom” rattled

oppressive governments across the Middle East. But, whereas some Arabs saw a sinister design in this sudden championing of democratisation, others found it a promising change from America's previous coddling of friendly dictators.

Determined American policies produced some tangible results. Every government in the region found it wise to join the struggle against jihadist groups. Libya, long ostracised for its links to terrorism, abandoned its secret nuclear programme. Saudi Arabia revised its textbooks to tone down the Wahhabist xenophobia that many blamed for stoking jihadist zeal. Democratic practices advanced nearly everywhere. Some of the reforms were cosmetic, but free elections in Iraq and Palestine did produce radical change, and in Lebanon a peaceful uprising succeeded in ending decades of Syrian tutelage.

Yet several things went wrong. The unfortunate use by Mr Bush of the term “crusade” to describe his war on terror was quickly retracted, but the damage was done. Islamists gleefully interpreted the word literally, and the impression that America intended to clash with the civilisation of Islam as a whole was reinforced by Mr Bush's branding as terrorists groups, such as Hizbullah and Hamas, that many Muslims saw as legitimate political parties. When Mr Bush said you are either with us or against us, he in effect pushed fence-sitters into the enemy camp.

Then there was Iraq. Amr Moussa, the secretary-general of the Arab League, voiced a belief nearly universally held in the region when he declared that an invasion would “open the gates of hell”. He was proved right, even though no one predicted the full folly of America's subsequent policies. Iraq turned into a crucible for terrorism.

Televised imagery of American troops in action, meanwhile, looked so like Israelis stomping on Palestinians that many Arabs and Muslims grew simply to equate the occupations as twin assaults on their turf. Guantánamo was bad enough, but the lurid scandal of Abu Ghraib completely silenced America's remaining fans. After three and a half years' occupation, the Iraqis themselves hold no doubts about the country that delivered them from Saddam Hussein. Another opinion poll asked them the reason for America's invasion of their country. The top three answers were to control Iraqi oil (76%), to build military bases and to help Israel.

Iran ascendant

Instead of frightening those who opposed American policy, such as the regimes of Iran and Syria, the Iraqi debacle emboldened them. Iran gained strategically, and at no cost to itself, from the American-imposed regime change in two neighbouring countries, Afghanistan and Iraq. Iraq's newly empowered Shias were natural allies, while even such archly Sunni countries as Saudi Arabia, and secular ones like Turkey, now felt it wise to accommodate Shia Iran rather than challenge it. Rekindled nationalism within Iran helped elect a xenophobic government keen to continue to develop a nuclear deterrent. Hizbullah, Iran's long arm in Lebanon, felt encouraged to escalate its hostility to Israel to the point of provoking war.

The currency of anti-Americanism boosted Islamists across the region. The Muslim Brotherhood made political gains in Egypt, as did like-minded parties wherever democratic space, cleared by many governments in order to please America, allowed them to. The most dramatic Islamist advance came in Palestine, where an increasingly violent *intifada* raged.

Despite Mr Bush's declared wish to see the creation of a Palestinian state, American diplomacy did little to make it happen. Mr Bush became increasingly disenchanted with Yasser Arafat and eventually refused to deal with him. Israeli settlement of the occupied territories accelerated. In March 2002 all 22 Arab heads of state at a summit in Beirut agreed to end the conflict if Israel withdrew completely to its pre-1967 borders. However, the initiative came the day after a suicide attack in which Hamas, an Islamist group dedicated to destroying Israel, killed 29 elderly Israelis in Netanya, an atrocity the summiteers ignored. Israel said it welcomed the initiative as “important”, but the bombing provoked Ariel Sharon to reoccupy the West Bank, and the idea went nowhere. In 2005 Mr Sharon did, however, evacuate all Israel's settlements in the Gaza Strip.

By the time Arafat and Mr Sharon had both passed from the political scene, the likelihood of a resolution looked further away than ever. The Palestinians voted in Hamas. The Israelis elected a government led by proponents of a plan for a unilateral Israeli withdrawal behind its controversial “security barrier” until the Palestinians were ready to make peace.

As you were

It soon became clear that the plan would not suit Israel, after all. Palestinians continued to fire rockets from Gaza. To many Israelis, too, the recent war in Lebanon, and Hizbullah's rain of rockets from there, proved that any disengagement with Arab neighbours in the absence of political guarantees would be a big mistake. Meanwhile, the suffering of most Palestinians continued to mount. This was partly due to a freeze on aid by Western donors, who insisted that the Islamists should recognise Israel's right to exist and honour existing agreements between Israel and the Palestinian Authority. Arabs said it was hypocritical to promote democracy and then balk at its results.

Within this gloomy picture, one change stands out. The turbulence caused by al-Qaeda's terrorism and America's response has helped push the price of oil to dizzy heights. Countries that have the stuff are prospering mightily.

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Al-Qaeda

Not on all cylinders, but still firing

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Rex Features

Osama bin Laden and his men are, alas, still very much at large

“ALL the world is a battlefield open in front of us,” said Ayman al-Zawahiri in a videotaped speech on Israel's recent invasion of Lebanon. And so it has lately seemed. Whether plot or skirmish, there has hardly been a recent incident involving Muslims that Osama bin Laden and his deputy, Mr Zawahiri, have not commented on or laid claim to.

Mr Zawahiri has made 11 videotaped pronouncements this year, and Mr bin Laden six—more than their total output for the previous four years. Most have been broadcast on al-Jazeera only a day or two after being recorded, suggesting that al-Qaeda's two foremost leaders are still quite well organised. Intelligence types say that, wherever they are, the world's two most wanted men, worth a total American bounty of $50m, are probably not on the run.

The five-year hunt to get Mr bin Laden—“dead or alive”, as George Bush put it—and Mr Zawahiri has been frustrating. At America's urging, Pakistan has dispatched 80,000 troops into its tribal border region, sparking an ugly war with fundamentalist tribesmen in which hundreds have been killed—including no al-Qaeda member of note. Rumours have circulated of Mr bin Laden's presence in Afghanistan's lofty eastern provinces of Konar and Nuristan. But, as a senior American official in Kabul says, “The trail has gone cold.” The Americans believe, though, that most of al-Qaeda's structure has been dismantled.

Al-Qaeda probably never had more than a few hundred committed members, and many have been killed, including the three men said to be its last three operations' chiefs. Others have been arrested. Associated outfits have also been hit hard, especially in Saudi Arabia and Indonesia.

Yet the group around Mr bin Laden has shown a hydra-like resilience: counter-terrorism experts say that it remains operational and more committed to spectacular atrocities than any rival. Since 2001, excluding incidents in Iraq and Afghanistan, there have been about a dozen major acts of jihadist terrorism—in, for example, Bali, Mombasa, Istanbul, Madrid and London. Of their perpetrators, only the Madrid bombers, most of whom were Moroccan, are thought to have had no direction or personal contact with al-Qaeda. British officials say that the supposed plot to blow up transatlantic airliners last month had a direct link to al-Qaeda, even if the alleged plotters were inclined to violent extremism before making contact.

That seems to settle a question often asked of al-Qaeda: is it a cohesive organisation or rather a source of inspiration for other radicals, who may claim to act in its name? It is both, is the answer, with Iraq the main example.

In 2004 Abu Musab al-Zarqawi, the leading Islamist militant in the Iraqi insurgency until his death in June, named his movement “al-Qaeda in the land of the two rivers”, a reference to Iraq, and swore fealty to Mr bin Laden. Yet he had little to do with the rich Saudi when both men were training terrorists in Afghanistan in 1999, and the blood between them was said to be bad. The evidence suggests al-Qaeda is still well organised, and offers direction, resources and a stamp of approval from the charismatic leader to an array of jihadists.

A harder question is what al-Qaeda would amount to without Mr bin Laden. It would probably be dominated by the Egyptian jihadists round Mr Zawahiri. But whether he could hold it together is unclear. That might anyway be unnecessary, given the growing propensity for young Europeans to join the global *jihad*. His part in creating this seems sure to be Mr bin Laden's grisly legacy.

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The mid-term elections

Shifting pocketbook politics

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From The Economist print edition

AP

How much will the economy matter in November's mid-term elections, and which party will gain from it?

WITH giant barbecues, giant sales and giant traffic jams, Americans will bid summer farewell this weekend. Politicians across the country will kiss babies and make stump speeches from straw bales. Labour Day, officially a holiday to celebrate America's workers, marks the unofficial start of campaigning for the mid-term elections on November 7th.

That kick-off date may well be apt. After elections in 2002 and 2004 that were dominated by terrorism and national security, the economy, and particularly workers' well-being, looks likely to play a bigger role this year. And both parties reckon they can benefit by that.

The Republicans' 2006 strategy has long been to divert voters' attention from the Iraq mess by highlighting the economy's strong overall performance. Unemployment is low; productivity has been buoyant; output growth has been strong. The economy is in better shape than in 2004, argue Republican pollsters. It should therefore help their camp.

Democrats disagree. Growth may have been strong, they argue, but it has boosted firms' profits and raised earnings only for those at the top, while most Americans' wages have stayed stagnant. With the benefits of the expansion so tilted to capital and the rich, they argue, focusing on the economy will help Democrats.

Who is right? History is an imperfect guide. Ray Fair, an economist at Yale, famously devised an equation linking the outcome of presidential elections to inflation and output growth, but mid-terms are murkier. Divided government is one reason. Congress has often been controlled by a different party to the presidency, making mid-term elections less of a referendum on economic policy. And local issues often loom larger than the national economy when it comes to electing a congressman.

Nor is the evidence from polls clear-cut. According to Gallup's latest survey, only 39% of Americans approve of George Bush's handling of the economy, almost 10 percentage points fewer than in 2004. Almost 70% of them reckon economic conditions are getting worse, compared with less than half in 2004. That said, Americans' perceptions of the actual state of the economy have not changed much. Both in 2004 and today just under 40% of people think it is in “excellent” or “good” shape: a far higher share

than in 1994, when control of Congress changed hands in a Republican landslide.

Increased partisanship is also distorting people's perceptions of the economy. The share of Republicans who think it is in good shape is more than twice the share of Democrats. According to Gary Jacobson of the University of California, San Diego, only a small part of that gap can be explained by the fact that Republicans tend to be richer and are doing better in the expansion. Far more important, he reckons, is simple political bias.

Nevertheless, it is hard to see how Republicans would gain from a campaign where the economy looms large. Since they control the presidency and Congress, all economic discomfort can be laid at their door. And though unemployment is lower today than in 2004, inflation is higher: consumer prices rose 4.1% in the year to July. Add the unemployment and inflation together and the “misery index” today is around 9%. That is the same as in November 2004 and, surprisingly, higher than in November 1994. Economists have been relatively untroubled by recent inflation, largely because it has been driven by higher energy costs and has barely spilled over into broader price rises. Feeling poorer after every trip to the petrol station, voters may be less tolerant.

More important, the overall economy is clearly weakening. As the housing market stalls, most economists are expecting output to slow. A loud minority is even talking about a recession in 2007. Figures released by the Conference Board this week showed that consumer confidence tumbled in August to a nine-month low. More such bad news will appear during the election campaign.

Finally, Democrats are right that this expansion has seen a disconnect between gains in the overall economy and the situation of most Americans. The Census Bureau's annual snapshot of the economy, released this week, makes the point starkly. The income of the typical American household—the one at the very middle of the income distribution—rose by 1.1% in 2005, after falling for five years in a row. That still left the typical household's income below its level at the trough of the last recession, despite four years of strong output growth. The share of people without health insurance rose from 15.6% to 15.9% after being flat for a couple of years.

Doug Schoen, a Democratic pollster, reckons that the “crisis of affordability” for middle-class Americans could be a big issue in the campaign, especially if Democrats come up with credible centrist policies. So far this has not happened. Democratic politicians are spending their time protesting against Wal-Mart, a giant retailer that bans unions, and calling for higher minimum wages, a policy whose economic effects are debatable and which would have little impact on most Americans. Rahm Emanuel, head of the Democratic Congressional Campaign Committee, recently produced a book of policy ideas. But it is unclear how many of his colleagues agree with them.

Many Republicans take comfort from the Democrats' lack of a clear plan. That may be a mistake. Mid-term elections are often about delivering a rebuke to a president and his party, rather than endorsing a properly thought-out alternative. As Jason Furman, a former advisor to John Kerry, puts it, “No one is buying the Democratic agenda. What they are buying is divided government.”

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Corruption

Blame the weather

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An ill wind blows the dollars around

AP

But think of that FEMA cheque

AS REPORTS accumulate on the enduring mess in the Gulf states a year after Hurricane Katrina, here is some food for thought. Bad weather and bad government may be related.

According to a new paper by Peter Leeson and Russell Sobel of West Virginia University, natural disasters not only wreck property and disrupt lives, but also encourage graft. The academics compared the rate at which public officials were convicted for corruption in different states with the geographical distribution of natural disasters. Their correlation was striking. States which see lots of disasters, such as Mississippi, Florida and South Dakota, are also the most corrupt.

That link, reckon the authors, is not spurious. When disasters occur, the federal government dispenses large dollops of cash in affected areas through FEMA, the Federal Emergency Management Agency. A windfall of federal cash spawns graft in much the same way that oil wealth or foreign aid can cause corruption in poor countries. States with bad weather get more frequent gobs of FEMA cash and hence are more corrupt.

Help from FEMA encourages graft in many ways. Public officials can embezzle cash directly; they can overstate peoples' damage claims in return for a bribe, or demand kick-backs for rebuilding contracts. All told, the impact is big. The authors' calculations suggest that in the average state, an extra $1 per person in money from FEMA increases corruption in that state by 2.5%. Eliminating FEMA relief entirely would cut corruption by more than 20% in the average state. But don't hold your breath.

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Public transport

All aboard!

Aug 31st 2006 | PORTLAND
From The Economist print edition

Light rail and buses beckon. But will Americans really abandon their cars?

PORTLAND, Oregon, is a fabulous city, at least when it's not raining. Trees line the streets, the microbrews are full-bodied, cyclists abound. And then there is the 44-mile (71km) MAX light-rail system, started 20 years ago. Over $1.6 billion went into developing the MAX, mostly from local and federal governments. The handsome payoff includes Portland's perpetual reputation as among America's nicest places to live, and some $4 billion-worth of development near the stations. Since 2001 the MAX has even whisked people from the airport to the centre of town in just over half an hour for under $2—the first “train to the plane” on the west coast.

The city has been a light-rail pioneer. Few systems pre-date the MAX, which is now busy expanding deeper into the suburbs. But light rail—small passenger trains that, unlike underground trains or commuter railways, often use an overhead electricity source and may operate in the streets—is suddenly booming across America. Charlotte, Phoenix, and Oceanside, California, are building light-rail lines from scratch. Denver, Dallas, St Louis and many others are racing to extend existing systems, sometimes along old railway tracks. Dozens more cities, from Albuquerque to Atlanta to Louisville, are mulling light rail over. Downtown streetcars are also making a comeback, in Portland and elsewhere.

Congestion is a big reason, especially in bumper-to-bumper Seattle and fast-growing sunbelt cities. Painful petrol prices, already above $3 a gallon, have also sent Americans racing for the rails. Gary Thomas, the executive director of Dallas Area Rapid Transit, reports a “flood” of new riders during the post-Katrina petrol rise a year ago, and thinks about half of them have stayed on. A host of problems ensued, from overcrowded park-and-ride lots to lack of seating on trains. Dallas was far from alone: according to the American Public Transport Association (APTA), user-figures for public transport rose more than 4% in the first quarter of 2006 over a year earlier. Those are strong figures for a sector that typically slugs along at 2%, slightly ahead of population growth. Rider-figures for light rail were up 11.2%, and even buses carried 4.5% more passengers.

Americans have not always embraced public transport. “We had people carrying signs saying ‘Light Rail Kills Babies’,” recalls John Inglish, head of the Utah Transit Authority, which has 19 miles of track around Salt Lake City. Proponents were likened to communists, he says. Now the system has almost too many riders—up 39% in May from a year earlier. Last autumn the crowds were so great that the trains' suspensions dropped, and carriage doors at a few stations in Salt Lake could not close unless half the passengers leaned over to one side. (Siemens, the manufacturer, has since fixed the problem.) The true test of Utahans' enthusiasm will come in November, when voters will decide whether to pay higher property taxes to support an $895m expansion into four new light-rail routes.

Light rail is hugely expensive. The federal government can cover 80% of the cost, but it is so deluged with applications that 50% is more typical. On the local level, higher taxes are always a hard sell—and several municipal governments are often involved, which complicates matters. A much-advertised benefit of light rail is that it sparks economic development around stations. At first, though, as is happening in Houston now, householders can delay projects out of fear that their property will fall victim to the bulldozers.

Cost overruns have already caused trouble in Seattle, which had to budget in an extra $1 billion several years ago. The city's financial storm has calmed, and Sound Transit expects to complete a light-rail link to the airport by 2009. Now, though, planners across America must worry about a huge jump in the price of construction materials. Concrete for tunnels, barriers and supports costs around 11% more than last year. Prices of steel, cement and copper wiring have gone up too.

AP

Not just for the desperate and disreputable

Can cities get by with buses, which are far cheaper than rail? Sadly, few people want to ride on buses unless they have to. In many American cities they are the transport of the poor, the drunk and the illegal. They are slow and often smelly, and come at unpredictable intervals. And when they stop, they may block traffic.

But petrol prices are having an effect. Buses have seen some astonishing growth, especially in smaller cities, notes William Millar, the president of APTA. Tulsa, Oklahoma, in the heart of oil and gas country, has seen bus travel jump 28% in a year. In Austin, journeys along park-and-ride routes are up 14% in a year. Many systems are running their buses on natural gas or cooking oil, to save money and draw in green riders.

The oddest bus-booster may be Las Vegas, which cannot get enough of sprawl and cars. Sin City has no plans for light rail. It does have a privately owned monorail, whose customer base is slowly disintegrating: in July it had 600,763 passengers, down 41% in a year. And, until recently, bus was “a four-letter word”, says Jacob Snow of southern Nevada's transport commission. But he is trying to change attitudes. In 2004 his agency introduced “bus rapid transit”, described (perhaps wistfully) as a “cross between a bus and a bullet train”. It has a dedicated bus lane and operates in a low-density area of north Vegas. “You can do what light rail does with a bus for one-third of the cost,” insists Mr Snow. Adding to the mix, last October Las Vegas began service on “The Deuce”, a fancily named bus that runs along the Strip. It is a double-decker, the better to see the casinos, and the launch included showgirls.

Enticements like these will hardly persuade Americans to abandon their SUVs. Driving is the ultimate convenience, especially for doing multiple errands at different places. But technology has several improvements in store for public transport, executives say. One forthcoming convenience is wireless internet access. Just this week Caltrain, a Bay Area commuter-rail system, declared that it has successfully installed a wireless system on a 16-mile stretch of track near Palo Alto. Sound Transit, in Seattle, is also testing wireless on buses and a commuter railway line.

As important, technology may change the whole boarding process. Soon more cities will have a number to dial to learn exactly where the bus or train is, enabling people to stay at home an extra ten minutes. That may be especially useful when baby-boomers start getting feeble. Google Transit is working on providing public-transport directions (at the moment only Portland is available, in beta). And more cities may adopt technology like Washington Metro's “SmarTrip” card, which gets users quickly through the turnstiles and is easy to top up.

Someday, dreams Mr Millar, driving licences may even act as smart-cards. Utah is planning a pilot programme this autumn on its ski buses, whereby customers can pay by simply waving a credit or other payment card in the right spot. Besides being convenient, this also saves paying bus workers to count up small change. That, at least, sounds like a system that is heading in the right direction.

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Souped-up golf carts

A race to the tee

Aug 31st 2006 | CHANDLER AND PHOENIX
From The Economist print edition

The new plaything for suits

ACROSS America an obscure new hobby is emerging: racing golf-carts. People have started buying old carts for peanuts and bringing them up to speed with lift kits, oversized tyres, more powerful motors and roll bars. The end result is something closer to a mini-Hummer. They can do 50 miles (81km) an hour, and that's uphill.

Some 3m-4m Americans may now own versions of these. Many of them are in Arizona, with its golf courses and desert trails, but the carts are also popular in California, Georgia, the Carolinas and Florida. The trend has been creeping up since 1996, when shops began selling do-it-yourself parts. Buggies Unlimited, a shop in Richmond, Kentucky, won 100,000 customers in three years by selling DIY speed and power systems for half the price of the customised version.

Yahoo! now has three online forums, and Buggies Unlimited has another, where owners can post pictures of their projects, plus questions and information. Early this summer 200 people and 70 golf cars attended the second annual Buggy Bonanza in Richmond. Publications are emerging too. The second issue of *Cart Wheelin'*, launched by two owners in Glendale, Arizona, is out and doing well. All these things celebrate the camaraderie and joy of carts. Mel Travis, a welder from Phoenix, loves his 1977 Western House Marketeer, a raised, 36-bolt electric golf cart that took him a year to build: “It really makes me feel like a man.”

Some people still try selling completed carts or customised services for big profits. A Phoenix man, for instance, recently advertised a “show” cart for $22,000. But he never sold it, and an assistant at KD Cycles, a bike store in Yuma, Arizona, that once flourished from customised carts, isn't surprised. “People think it's unmanly unless they've made it themselves.”

The only worry for these lone rangers is the law. Arizona, California and Florida now allow the carts on main roads. Elsewhere fines can run at about $350 a ticket for either speeding or driving anywhere but off-road, and registration is complicated. Most golf carts are electric and clean. But the souped-up ones have petrol engines and are fast. The enthusiasts are unfazed. Says Mr Travis: “I've not has this much fun in years. The risks are worth it.”

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The Virgin Islands

America's underbelly

Aug 31st 2006 | ST JOHN
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A lovely place, and woefully unprepared for a terrorist attack

THE beaches are white, lush forests cover the mountains, the turquoise sea is clear to its bed and the sun shines constantly. Tourists flock there by plane and cruise ship. Yet the Virgin Islands—St Croix, St Thomas and St John, all official Insular Territories of the union—are also perhaps America's most vulnerable point. Their infrastructure is weak; the islands are isolated geographically, 1,000 miles away from mainland America and some miles away from each other, and they are unprotected. Almost all fuel, food and medicine comes in by sea. On each island, a single generating plant provides electricity; damage to it would cut off all public power and water, and there is no grid to import electricity from a neighbouring city or state.

Illegal aliens land in the Virgin Islands openly and regularly, yet they are rarely caught. One US Customs man says that the islands, and St John in particular, are “busy drop-off points for human smugglers”, and adds: “It's not a big secret that there are organisations using the Virgin Islands to get people into the United States.”

Federal officials have compiled a long list of worries. A fishing boat carrying explosives might crash into a cruise ship. A cruise ship might be subject to a biological attack. A land-based anthrax attack might be launched on crowds during Carnival. Terrorists could easily use the St Thomas/St Croix seaplanes as a weapon, because they take off and land from the harbours many times each day and there is no passenger screening. On St Thomas, these planes fly so close to the cruise ships and ferry boats (almost as close as the boobies who swoop past with their fresh-caught, wriggling fish) that a deviation from the flight path would crash the seaplane into a cruise ship or ferry in less than ten seconds.

If any of these events caused a fire at sea, the Virgin Islands would have almost no means of fighting it. Emergency services are primitive in the extreme. Police, fire, paramedic services, search and rescue, communications and roads are all inadequate. On St Thomas there is sometimes only one government ambulance on duty for the whole island of 55,000 people (not counting tourists). On St John, where there are no traffic lights and where the main occupation is watching people waiting for the ferry, there is never more than one ambulance on duty. The Emergency Operations Centre, too, is in disrepair. There is no general evacuation plan.

The police department (VIPD) is under-trained and under-equipped and law enforcement is, at best, inconsistent and sporadic. Although most officers are hardworking and honest, complacency is endemic (drinking while driving is winked at here), and the force as a whole is not trusted.

As is typical on isolated islands, almost everyone has two or more jobs. A single person may be a police officer, a National Guard member, a Red Cross shelter manager and a part-time ferry captain, all in one. When some disaster occurs, these people are likely to be suffering its effects themselves, and therefore unable to help. After Hurricane Marilyn in 1995, the VIPD lost 90% of its vehicles, and many officers and their families were reduced to sleeping in cars.

The bigger obstacles to improving security are political and social. In government, mismanagement, nepotism and cronyism are widespread. One sewer-repair contract, said a US district judge, “reeked of politics and political influence, and, quite possibly, of political corruption”. The former deputy commissioner of health was convicted of cashing more than $100,000 in duplicate pay cheques for five years. On St John some favoured souls are allowed to lease government-owned property downtown for private business for as little as 69 cents per square foot. And when one prosecutor requested the names that went with certain licence plates suspected of criminal activity, the Bureau of Motor Vehicles tipped off the suspects.

These problems are compounded by racism, poverty, stark and increasing economic disparity and poor education. During the current governor's first term, all the public schools lost their accreditation. Tourism is almost the only industry. A large unskilled labour pool finds few jobs to do. Addiction to drugs is common, and substance abuse is accepted and even routine. Bars are as ubiquitous as the smell of *pate*, a favourite local snack of fried dough stuffed with meat.

Shutting an open back door

Perhaps most important is the absence of a sense of community within and between government agencies and among people at large. The population of the Virgin Islands comes from all over the world, but particularly from other Caribbean islands; the different groups remain unassimilated and self-contained, with their own meeting places and their own social circles. On St John, West Indians hang out at Mooies bar, Cap's Place is almost exclusively for Dominicans, and St Lucians prefer Tony's mobile food van (which hasn't been mobile for a decade). There is very little mixing and no unifying force.

At a minimum, the federal government and the Department of Homeland Security need dramatically to increase the federal police presence in the islands, including border-patrol officers equipped with boats and helicopters. Each island also needs more money to bolster its own emergency services, to protect its water and power systems, and especially to improve the training and awareness of the police. More honest government, a more diverse economy and efforts to achieve a more united community would not go amiss either.

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About sponsorship

Lexington

Kinky Friedman—singer, writer, governor?

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From The Economist print edition

A joke-spinning candidate with serious consequences

YOUR typical American politician will wriggle and duck to avoid saying anything that might conceivably offend anyone. Kinky Friedman is not your typical politician. With his country band, the Texas Jewboys, he used to belt out ballads such as “They ain't makin' Jews like Jesus any more” and “Get your biscuits in the oven and your buns in the bed”. His lyrics upset every Christian, feminist and racial-sensitivity-watchdog foolish enough to take him seriously. To the many fans of his music and comic mystery novels, however, Mr Friedman is one of the funniest men in America. He is certainly the most amusing candidate for governor of Texas.

Admittedly, the competition is not fierce. His opponents' slogans are dull to the point of self-parody: “I'm proud of Texas” (Rick Perry, the Republican incumbent) and “Think big” (Chris Bell, the Democratic challenger). Mr Friedman's are: “Why the hell not?” and “How hard could it be?”

His platform is a medley of populist tunes and one-liners. He calls himself a “compassionate redneck”. His heroes are “teachers, firefighters, cops and cowboys”. His education policy is “No teacher left behind”—higher pay, fewer standardised tests and a big infusion of cash for schools, which he will raise by legalising casino gambling (“Slots for tots”). He will also slap an extra tax on oil firms (boo, hiss) to raise salaries for firefighters, cops and teachers. Perhaps because his parents were teachers, he is especially sensitive to their plight.

Mr Friedman is also a big fan of alternative energy. He wants Texas to get 20% of its electricity from renewable sources by 2020. He favours tax breaks for biodiesel, which would “stop the Saudis from playing the jukebox and the rest of us dancing to the tune”. He has even suggested appointing as energy czar his friend Willie Nelson, a green country singer who fuels his tour bus with biodiesel and sells the stuff at petrol stations in Texas. Mr Friedman will soon unveil a health policy loosely based on the system in Minnesota, where another maverick, Jesse “The Body” Ventura, a professional wrestler, actually won the governorship in 1998. “The Kinkster” draws inspiration from The Body's victory, and is taking advice from Dean Barkley, Mr Ventura's top strategist.

Mr Friedman's opponents dismiss his campaign as a joke and whisper that he is running only to provide

material for another bestselling book. But Mr Friedman appears to take himself seriously, and so do a surprising number of Texans. A poll of likely voters by SurveyUSA put him in second place, with 21%, behind Mr Perry's 35% and a horse-hair ahead of Mr Bell (20%) and another independent, Carole Keeton Strayhorn (19%).

Most Texans are disillusioned with politics. Only 29% of the voting-age population bothered to vote at the last gubernatorial election. Lexington's chats with random Texans about the candidates revealed near-universal support for “I don't much care for any of 'em.” Mr Friedman's strategy is to fish for the apathetic 71% and try to reel them into the voting booths. If the turnout in November remains below a third, Rick Perry will be re-elected, says Laura Stromberg, Mr Friedman's spokeswoman. But if it is over 40%, “we guarantee [Mr Friedman] will win.”

On the trail in his trademark black cowboy gear, sucking on a Cuban cigar and volleying his best jokes at audiences who have not heard them before, Mr Friedman is proving an effective campaigner. For every sceptical query, he has a quotable answer. Isn't his candidacy a bit of a long shot? “I don't know how many supporters I have, but they all carry guns.” Doesn't his utter lack of relevant experience disqualify him for the job? “Politics is the only field in which the more experience you have, the worse you get.” Unlike all those career politicians, Mr Friedman is as clean as a pair of shiny new spurs and has no cronies clinging to the tails of his “preachin' coat”. True, but—unlike Arnold Schwarzenegger, for example—he has no heavyweight policy advisers either. His assurance that “I'm a Jew; I'll hire good people” is not entirely persuasive.

When his seriousness is questioned, Mr Friedman points out that all the “serious” politicians talk in one-liners and sound-bites too—only theirs are not funny. He adds that several of the serious politicians' policies are a joke. The Texas House last year passed a “booty bill” against sexy cheerleading. And in 1971 it unanimously passed a motion honouring the Boston Strangler, which a playful member had sponsored to demonstrate that his colleagues passed bills without reading them.

Friedman's just another word for nothing left to lose

Fair enough, but the reason sober observers think Mr Friedman would make an awful governor has nothing to do with his playfulness, his past drug use, his bachelorhood (“I'm not against marriage. I'm against my marriage”) or any of the other minor quirks his opponents will doubtless use against him. The trouble with Mr Friedman is that he appears never to have applied himself to anything complex and dull. That is fine if you are an entertainer, but not if you want to sort out a creaking school system, clogged highways or a precarious budget. Those who know him say Mr Friedman has the attention span of a hyperactive schoolboy. Ms Stromberg admits that, were he to become governor, his briefings would have to be very brief.

It is unlikely to come to that. Mr Friedman has no party behind him, unlike Mr Ventura, who used the old organisation of Ross Perot, another maverick Texan. So his chances of winning are slim. But he will probably divide the disgruntled vote enough to let Mr Perry mosey effortlessly to re-election. For Texans who like the governor's menu of tax cuts, tort reform and muscular Christianity, that is good news. But for those who agree with Mr Friedman that politics-as-usual should stop, it will be disappointing, to say the least.

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Mexico's presidential election

The court v the street

Aug 31st 2006 | MEXICO CITY
From The Economist print edition

Felipe Calderón moves a step closer to the presidency but his opponent threatens to make Mexico ungovernable

FOR the past month Andrés Manuel López Obrador and tens of thousands of his followers have been camped out in and around the Zócalo, Mexico City's historic central square, in support of his claim that fraud robbed him of victory in a presidential election on July 2nd. But the action that matters has been going on less raucously in a nondescript modern building in the south of the city, the headquarters of the Federal Electoral Tribunal. And slowly but surely, the tribunal is disproving Mr López Obrador's claims.

The official vote count gave Felipe Calderón of the ruling conservative National Action Party (PAN) victory by 244,000 votes, or just over half a percentage point. In response to legal challenges by Mr López Obrador, a populist who claims to champion the poor, the tribunal ordered a recount of votes from 9% of polling stations where it decided there were irregularities. On August 28th it revealed the result of the recount. More than 220,000 votes were annulled but Mr Calderón's lead shrank by just 4,183—not nearly enough to change the outcome even if projected across 100% of the ballots.

With that, the tribunal took a big step towards declaring Mr Calderón Mexico's next president. But first it must rule on other legal challenges by Mr López Obrador, such as whether the current president, Vicente Fox, campaigned illegally on Mr Calderón's behalf. After the recount, the challenger called for the tribunal to annul the election. That is unlikely. The tribunal has ruled unanimously, both in ordering the partial recount and in adjudging its result. It seems certain to declare Mr Calderón the winner before the appointed deadline of September 6th.

Mr López Obrador—contrary to earlier pledges by him and his advisers—shows no sign of accepting the verdict. “The electoral tribunal decided to validate the fraud against the citizens' will,” he told a rally of his supporters. Referring to Mr Calderón as “the usurper”, he vowed to create a “shadow government”, in effect threatening to make Mexico ungovernable. His mass camp-in has caused gridlock in the city centre, and hurt nearby businesses, including hotels. But the camps have a festive air, with impromptu concerts and sports competitions.

Once the tribunal gives its final ruling, his support may dwindle. His claims of bias by the tribunal

persuade nobody but his hardcore followers. He invokes Mexico's past tradition of electoral fraud under the Institutional Revolutionary Party (PRI), which ruled for seven decades until Mr Fox's victory in 2000. But Mexico established independent electoral institutions in 1996. Since then, the tribunal has established a strong record of probity.

Tellingly, neither Mr López Obrador nor his Party of the Democratic Revolution (PRD) question the legislative election held in parallel with the presidential vote. This gave the PRD a record haul in Congress. Its new legislators took up their seats on August 30th; the party's public show of unity may now start to crack.

In the campaign, Mr López Obrador attracted middle-class and centrist voters to his self-proclaimed crusade for poorer and darker-skinned Mexicans. His actions since July 2nd have caused some of that broader support to evaporate. According to a poll for *Reforma*, a newspaper, if the elections were held again, he would win 30%, down from 36% on election day.

Matters may come to a head on the night of September 15th, when Mr Fox is due to preside over Mexico's independence celebration in the Zócalo. This year, the traditional big crowd will be one pre-assembled by Mr López Obrador. Himself a former mayor of Mexico City, Mr López Obrador is supported by the city government. He plans a mass convention in the city centre on September 16th, where the army holds its annual parade. Some Mexicans fear that he is seeking to provoke violence. But the independence day weekend offers Mr López Obrador a last chance to draw back from a confrontation in which he, and Mexico, would be the losers.

For his part, Mr Calderón has stayed out of the spotlight over most of the past two months. His party fell just short of a majority in Congress. He has offered to form a coalition government. His opponent's bellicosity may boost his chances of finding recruits for this in the centrist PRI. If and when the tribunal anoints him, Mr Calderón will have to strike a difficult balance between asserting democratic authority and reaching out to the alienated constituencies loyal to his querulous rival.

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Brazil's presidential election

Contentment and complacency

Aug 31st 2006 | SÃO PAULO
From The Economist print edition

Lula is coasting towards a second term

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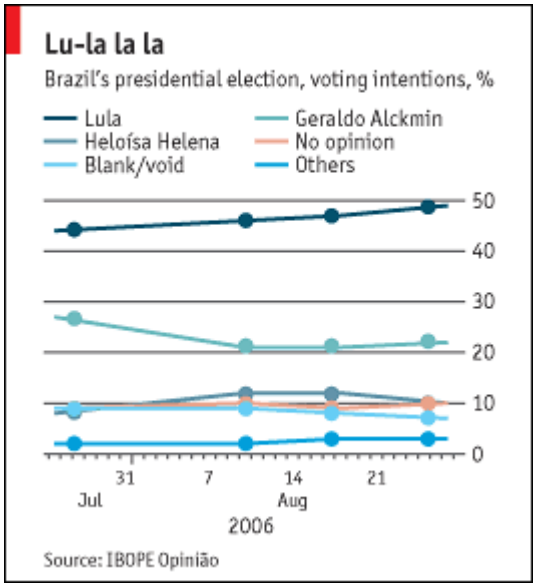

FOUR years ago the voters chose Luiz Inácio Lula da Silva as Brazil's first left-wing president since democracy was restored in the 1980s. Along with much of the rest of the world, Brazilians then held their breath. Would Lula inflict on Brazil's roller-coaster economy a new cycle of instability? Or would he pursue his twin goals of growth and equality within the confines of a responsible economic policy? Lula chose the latter course, and Brazil now seems a safer place.

The choice facing Brazilians on October 1st is less momentous: whether to re-elect Lula, now a known quantity, or to opt for Geraldo Alckmin, a bland former governor of São Paulo, the biggest state. Both candidates make the same basic promise: an active government but not a reckless one. The only call for radical change comes from Heloísa Helena, a senator who was thrown out of Lula's Workers' Party (PT) for opposing pension reform. She wants to chop interest rates in half within a month of taking office. But Lula is expected to trounce both challengers; he stands a good chance of outright victory, without any need for a run-off (see chart).

Continuity sounds reassuring, and by the standards of some recent Latin American elections it is. But Brazil could do better: on the economy, crime and corruption, and education for a start. For economic solutions, Lula and his allies instinctively look to a muscular state. Mr Alckmin's centrist Party of Brazilian Social Democracy (PSDB) and its ally, the Liberal Front, want more scope for private initiative. The stakes are higher than they appear.

Lula is surfing to victory on a wave of wellbeing mixed with apathy. Economic growth has been steady rather than spectacular. The cost of staples has fallen in real terms during his term, helped by targeted tax cuts. There are 4.5m new jobs in the formal sector—much less than Lula promised but much more than in the previous four years. Lula has directed government largesse toward the poor, now his staunchest supporters. Some 11m families, a quarter of the population, get a minimum income in exchange for keeping children in school and vaccinating infants. Nearly half of Brazilians consider Lula's performance to be “good” or “very good”.

The apathy is prompted by problems that Lula failed to solve or, in some cases, made worse. Interest rates remain high, and the tax burden has climbed to 37% of GDP. Corruption has never seemed as widespread. Almost a fifth of the deputies in the Congress's lower house have been implicated either in a cash-for-votes scandal involving the Workers' Party or in a scheme to buy over-priced ambulances. In a survey of 496 candidates for the lower house, Transparência Brasil, an NGO, found that 39% face legal proceedings.

Ordinary Brazilians are either ignorant of these problems or do not trust politicians to put them right. If they did not have to vote, polls suggest half would not. So far Mr Alckmin has failed to pierce this indifference. He was a popular governor but is little known outside the state. His standing has been hurt by a wave of violence by a criminal gang based in São

AP

Paulo's prisons—until recently his responsibility.

Lula lulls the voters with public spending

Because of the size of its parties his alliance is by law allowed slightly more free radio and television time than Lula's coalition. But the advertising, which started on August 15th, has so far had little effect. While “Geraldo”, as he now calls himself, comes across as a wonkish prodigy (he trained as a doctor and was the youngest-ever mayor of his birthplace in the interior of São Paulo state), Lula fills the screen with images of grateful Brazilians.

Mr Alckmin's campaign looks demoralised. Even his own party's gubernatorial candidates in Brazil's 27 states ignore him. In Ceará, in the north-east, the PSDB governor, Lúcio Alcântara, used TV spots to boast of his friendship with Lula. His Liberal Front allies want Mr Alckmin to attack Lula more vigorously for corruption, which he has started to do.

So far Mr Alckmin has not offered a complacent electorate reason enough to switch presidents. He stresses his honesty and competence, Lula's reputed weak points. He promises to cut taxes and boost investment as he did while governor. He complains about high interest rates and the overvaluation of the real, echoing industrialists and the left. Taming public spending, he rightly says, is the way to pull both down. Yet he is cagey on the indispensable means of achieving this: further reform of state-financed pensions.

Rather than who wins the election, the bigger question is whether a second Lula term would be more productive than the first. That largely depends on whether or not he champions reforms to boost investment and growth, or joins the bulk of his party in resisting them.

His campaign's manifesto, published on August 29th, is not encouraging. It calls for lower interest rates, higher investment and better education, but says little about how to get them. Lula wants more local management of schools, which might imply a welcome increase in accountability. The manifesto is nearly silent on pensions. “The government's strategy is to expand public spending responsibly,” says Ricardo Berzoini, the PT's president. But this may not be the last word. Paulo Bernardo, the planning minister, says economic reforms will be taken up after the election.

The Workers' Party may lose seats in Congress, because of its involvement in corruption. Lula can probably fashion a congressional majority, in part by drawing in the centrist Party of the Brazilian Democracy Movement and other outfits hungry for government patronage. It takes strong leadership to curb the appetite for public money in Brazil. Unless the world economy becomes unfriendly, a second term might look rather like his first.

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Venezuela's foreign policy

With friends like these

Aug 31st 2006 | CARACAS
From The Economist print edition

Multipolar, or just anti-American?

HE HAS often said he wants a "multipolar world", and to diversify his country's trade. Yet recently the foreign policy of Hugo Chávez, Venezuela's leftist president, has seemed monothematic: to draw close to adversaries or rivals of the United States wherever they might be. Although a presidential election is only three months away, Mr Chávez has found time for two lengthy foreign trips, taking in Russia, China, Iran, Belarus, Vietnam and Syria among others. A planned visit to North Korea has so far not materialised, perhaps because Venezuela's support for Kim Jong Il's recent tests of nuclear-capable missiles makes even some of its friends blanch.

The immediate aim of this relentless travel is to drum up votes for Venezuela's bid to obtain in October one of the two rotating seats on the United Nations Security Council that are normally held by Latin American countries. In seeking this seat Mr Chávez disregarded a tacit Latin American understanding that it should go to Guatemala. Now the United States is lobbying hard for Guatemala, placing some South American countries in a quandary. Many are wary of Mr Chávez but are unwilling to be seen as American pawns. The Mercosur countries have said they will vote for Venezuela; so might Chile.

AP

Chávez seeks anti-American satellites

The longer-term aim seems to be to solidify a transcontinental anti-American alliance. Officials present this as defensive. Mr Chávez claims that the United States plans to invade Venezuela. Certainly, George Bush's administration shortsightedly failed to condemn a short-lived coup against Mr Chávez, an elected leader, in 2002; it has helped Venezuela's opposition. But there is no evidence that it organised the coup, or that it plans an invasion.

Mr Chávez rails against the United States as "interventionist, aggressive, genocidal and savage". His new foreign minister, Nicolás Maduro, echoes such talk. Not for him the conciliatory spin that his predecessor, Alí Rodríguez, applied to the president's inflammatory language.

The United States has learned the wisdom of staying silent in the face of Mr Chávez's provocations. It has even played down an incident last month in which diplomatic baggage and supplies were seized by Venezuela's national guard. But the Bush administration is clearly concerned at Mr Chávez's new friendships. It has imposed an arms embargo on Venezuela. Last month it created a new post of intelligence co-ordinator for Venezuela and Cuba—a recognition that Mr Chávez's close alliance with the ailing Fidel Castro is an obstacle to American hopes of a democratic transition in Cuba.

Venezuela has turned elsewhere for arms. In July Mr Chávez ordered kit worth some $3 billion from Russia, including 24 Sukhoi 30 jet fighters to replace his ageing American F-16s. The neighbours are more concerned about the 100,000 Kalashnikov assault rifles that have begun to arrive, and 55 Russian helicopters, including about a dozen MI-35 helicopter gunships. Venezuela argues, plausibly, that it needs to replace obsolete weaponry and, less plausibly, that it faces a military threat.

Mr Chávez has sought out American foes in the Middle East. "We will back Iran any time, in any situation," he said in Tehran. He compared Israel's war in Lebanon to the Holocaust, withdrew his ambassador to Tel Aviv, and threatened to sever diplomatic relations.

In Beijing last week Mr Chávez signed agreements to more than triple oil exports to China in three years and to step up investment by Chinese state-owned companies in Venezuela's heavy-oil belt. Diversifying trade is one thing. But Mr Chávez's ostentatious friendships with nuclear miscreants such as Iran and North Korea may cause almost as much alarm in South America—whose countries have abjured nuclear weapons by treaty—as they undoubtedly do in Washington, DC.

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Guyana

Apathy rules

Aug 31st 2006
From The Economist print edition

At least there have been no riots, so far

IN THE capital, Georgetown, shopfronts were barricaded with shipping containers or metal shutters as Guyana voted on August 28th. Soldiers and police patrolled the empty streets; banks and offices were closed. Neighbouring Suriname declared itself ready to welcome refugees, and moved part of its small army close to the disputed border.

The fear was of a repeat of the racial violence that has marred past Guyanese elections. Almost all Indo-Guyanese, the largest group, support President Bharrat Jagdeo's People's Progressive Party. Most Afro-Guyanese vote for the snappily named People's National Congress-Reform-One Guyana, which held office through rigged elections from 1964 to 1992. In subsequent votes, it has cried foul; some of its supporters rioted for months after the ballots were counted.

This time all has been quiet—so far. On August 30th, with most votes counted, Mr Jagdeo's party had won its usual narrow majority. The opposition had slipped to around a third of the vote. A newly formed multiracial Alliance for Change had notched up almost 10%, enough for a few seats under Guyana's proportional-representation system but not enough to hold the balance of power, as it had hoped. Another winner was apathy. Only about 70% of voters turned out, down from 92% in 2001.

Mr Jagdeo is popular, and has raised spending on social services and infrastructure. His main opponent, Robert Corbin, took over his party only three years ago, but like many of his colleagues has been in politics since the 1960s. “They aren't going to win any election stuck with those fossils,” says a businessman in Georgetown.

Many of Guyana's debts have been forgiven, but the economy remains stagnant. The biggest gold mine closed last year. The sugar industry is threatened by a cut in European subsidies. Organised crime casts a dark shadow. Drug-trafficking accounts for up to 20% of GDP, according to America's State Department. Race and politics, as well as cash, seem to motivate well-armed gangs. Five printing staff were killed in an attack on a popular newspaper last month. In April gunmen murdered the agriculture minister and two members of his family. A quiet election would seem like progress.

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Myanmar

The gathering mild rebuke

Aug 31st 2006 | BANGKOK AND KUALA LUMPUR
From The Economist print edition

The dictatorship's neighbours are losing patience with its lack of reform

IN THE 16 years since Myanmar's military regime chose to ignore an electoral victory by the civilian opposition, neither sanctions imposed by America and Europe nor the softer approach of its neighbours has persuaded the generals to budge. Incompetent as well as callous, they have let what was once one of South-East Asia's most promising countries become one of its most brutalised and impoverished. With its big population (51m) and its reserves of oil and other natural resources, Myanmar ought to be a regional leader. Instead it is an exporter of drugs (second only to Afghanistan for opium production) and refugees, and a breeding ground for diseases from HIV to bird flu.

Myanmar's neighbours let the rogue state join their club, the Association of South-East Asian Nations (ASEAN), nine years ago. They argued then, and have continued to argue, that “constructive engagement” with the junta would achieve more than harsh words and punishments. It has not—and now their patience is wearing thin. On August 24th Musa Hitam, the chairman of a group of ASEAN grandees charged with writing a new charter for the regional body, said it might include mechanisms to expel or impose sanctions on member countries. It was clear who these remarks were aimed at.

The day before, Indonesia's foreign minister, Hassan Wirayuda, said ASEAN leaders had told Myanmar, at a summit in July, not to expect any help if America got its way and took the country to the United Nations Security Council over its roguish behaviour, including its human-rights abuses and its failure to democratise. They were exasperated that Myanmar had not delivered a progress report on the “road map to democracy” that the generals had promised in 2003. In early August Abdullah Badawi, Malaysia's prime minister and ASEAN's outgoing chairman, said that in the light of Myanmar's intransigence, the regional body's hallowed principle of non-interference in members' internal affairs ought to be “updated”.

By ASEAN's pussyfooting standards, these statements amount to a display of sharp claws. They follow a period in which Myanmar's junta has shown great disregard for world opinion. In January the UN's special envoy to Myanmar, Razali Ismael, quit in disgust at the generals' repeated refusal to see him. In March an ASEAN envoy was denied meetings with both Than Shwe, the junta's chief, and Aung San Suu Kyi, the opposition's Nobel prize-winning leader, who is under house arrest. Another top UN official, Ibrahim Gambari, was allowed to see General Than and Miss Suu Kyi in May, raising hopes that she might be

released. But no sooner had he gone than the regime announced an extension of her house arrest.

Despite its new toughish talk, ASEAN is still unlikely to take strong action against Myanmar. Several other members—Vietnam, Laos and Brunei—are not democracies and have no intention of becoming so. Even the body's more liberal members may balk at creating means for neighbours to meddle in their affairs. Moreover, Myanmar's oil, gas and timber are important to the region. ASEAN's willingness to challenge the generals in Yangon will be tempered by fear of losing juicy contracts to resource-hungry China and India, which have fewer qualms about dealing with the regime. Even if powers to exclude or punish members do get written into the draft of ASEAN's charter, they will probably be diluted before it is adopted.

But even a slight hardening of ASEAN's stance might embarrass Myanmar into making modest concessions. If ASEAN raises no objections to a Security Council referral, this will increase the chances of America getting the nine votes (out of 15) it needs to put a resolution on the council's agenda. If the resolution omits to mention sanctions and simply calls on the regime to accept political dialogue, allow greater access for humanitarian aid and so on, veto-wielding China and Russia might be persuaded to abstain.

The Burmese regime dislikes being treated as a pariah state, and it can be prodded, reluctantly, into reacting to outside pressure. A recent threat by the UN's International Labour Organisation to refer Myanmar to the International Court of Justice prompted the regime to release two people locked up for campaigning against the widespread use of forced labour in the country. Threatened with being the subject of a Security Council debate, and a bit more cold-shouldering in ASEAN, the regime might possibly be badgered into restarting a tarnished and stalled initiative to produce a new constitution—the first stage of its promised road map to democracy—and into setting a date for it to be completed by.

The opposition boycotted the constitution-writing body because its conditions (including Miss Suu Kyi's release) had not been met. The body is therefore certain to guarantee the army a strong role in the country, even if the ruling generals shed their uniforms and stay in power. One faint cause for hope is that the clauses on how to amend the constitution have yet to be written. Sustained diplomatic pressure might persuade the generals to allow some scope for further changes after the constitution is adopted—maybe, one distant day, setting in train a genuine move towards civilian rule.

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North Korea

Will he, won't he?

Aug 31st 2006
From The Economist print edition

What if Kim Jong Il tests a bomb?

HE HASN'T been seen in public since July 4th, just before North Korea launched a firework display of test-missiles in the direction of Japan and the United States. Yet North Korea's reclusive *generalissimo*, Kim Jong Il, appears not just to revel in his country's isolation, he has been doing all he can to deepen it. His next spectacular, it is feared, could be a nuclear-weapon test. America, South Korea, Japan, China and Russia, North Korea's partners in stalled six-party talks over its nuclear programme, are trying in their different ways to dissuade him. But what if Mr Kim won't listen to them?

Livid that the United Nations condemned his July missile tests, and incensed that even China backed a Security Council resolution calling for a halt to all missile-related trade and financial links with his regime, Mr Kim threatened “stronger physical actions”. Work has been spotted at a suspected nuclear-test site. Is this just a feint to unnerve the neighbours (there was similar activity in April 2005, but no test)? Or will Mr Kim this time show off his long-claimed “deterrent”?

Before the missile tests, he brushed off pleas and warnings from both South Korea and China. Both had long argued that North Korea could be coaxed out of its bunker; both were humiliated by his actions. That experience, as much as the test-site work, makes diplomats worry that Mr Kim may not be bluffing. Rumours that he might visit China—a sign that he was listening to reason—are so far just rumours, although officials have not completely ruled out more six-party talks either.

But Mr Kim's intransigence has cleared minds. South Korea's defence minister has for the first time said publicly that he believes Mr Kim has the bomb; ambiguity over this point had until now allowed the government to keep the aid and trade flowing northwards. Testing a weapon, says its foreign minister, would have devastating consequences. But for whom?

South Korea has already cut back its increasingly generous aid and trade with North Korea (flood assistance continues). America is urging all governments to tighten the financial noose on Mr Kim's regime, by freezing overseas bank accounts used to finance illicit trade in weapons parts, counterfeit currency and narcotics. But Mr Kim seems unfazed.

In the event of a nuclear test, China could cut back oil supplies (unconfirmed reports suggest it may already have started to) that keep North Korea's limited economy going. But would China risk North Korea's collapse and a take-over by capitalist South Korea? An alternative, says Robert Einhorn, of the Centre for Strategic and International Studies, a Washington-based think-tank, could be a China-engineered coup.

Mr Kim is damaging China's interests, but enough for China to try regime change? China's economy, like South Korea's, depends on regional stability to keep trade and investment flowing. The financial shockwave from a nuclear test would damage China less than South Korea, suggests a recent study by Marcus Noland for the National Bureau of Asian Research. The diplomatic and military fallout would be worse for China.

A nuclear test by North Korea could nudge South Korea back under America's wing; public opinion, previously sympathetic to the North, is shifting. A more overtly nuclear-armed North Korea would also bolster Japan's already increasingly close security pact with America. It would likely hasten Japan's steps to amend its pacifist constitution, beef up its defence forces and play a bigger security role in the region. Rival China would not thank Mr Kim for provoking this.

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Japanese comics

Kick-ass maidens

Aug 31st 2006 | TOKYO
From The Economist print edition

Women enter a male fantasy realm

AP

Well, hello boys!

PRINCESS ANGELIQUE seeks a knight in shining armour to rule a new planet. Her nine-man entourage of Protectors, from suave Julious to brooding Clavis, vie for her favour. The princess eliminates her suitors one by one before selecting her true love. This is the story behind “Angelique”, a bestselling video game for young women—which some devotees take months to complete.

The world of comics, animation and video games was once thought to be the exclusive preserve of geeky Japanese youths, known as *otaku*. Yet it turns out to have many female inhabitants too. Sales of *otaku* goods last year exceeded 100 billion yen ($860m), and women outspent men by half.

Unlike their gauche male counterparts, female *otaku* like to socialise in online communities. Dubbed *otome*, or maidens, they gather on Otome Road in the bustling Ikebukuro district of Tokyo, a strip of bookstores selling fantastical costumes and *dojinshi*, pirate versions of well-known comics by amateur cartoonists. Dojinshi is the real money-maker; popular issues sell in the tens of thousands. The most popular genre by far is “boys love”, tales of naughty romances between androgynous males, which has led some maidens to refer to themselves as *fujoshi*, or “rotten ladies”.

Emiko Sakamaki is a 25-year-old former department-store salesgirl turned *otome* entrepreneur. With her elfin ears and waifish looks, she is not rotten. Yet she spends her savings on *dojinshi* about Ryoma Echizen, the surly hero from her favourite comic, “The Prince of Tennis”, and dedicates her free time to toppling the male species in “Angelique”.

Ms Sakamaki recently teamed up with a popular comics bookstore to open Swallowtail Café, Japan's first “butler's café”. At Swallowtail, *otome* can take tea like English aristocrats, fawned over by attentive male waiters dressed as butlers. “A true butler”, she says, “is distinguished by his beautiful hands.”

Swallowtail's butlers have fans eating out of their palms. Enthusiasts go often to get close to their favourite butler. “Being called a princess makes me feel really good about myself,” says a 20-year-old student visitor. Swallowtail's success has inspired copycats, including one in Tokyo's trendy Shibuya that only hires white “butlers” and throws in English conversation practice free. Ms Sakamaki's next plan? A “schoolboy café” for working women.

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Afghanistan

It's rough up north

Aug 31st 2006 | KATEH QALA
From The Economist print edition

Where warlords rule the roost

BOARDED-UP shops line the bazaar in Kateh Qala, a town almost deserted bar a small contingent of policemen peering over a line of sandbags. At night the surrounding valley echoes with gunfire. The fighting in Kateh Qala, in Afghanistan's northern Faryab province, is part of an ongoing struggle between local warlords that has spawned regular, almost unreported, conflict in the past five months. According to NATO peacekeepers in the province, the fighting has left a 28-year-old Uzbek interloper, known as Abdurrahman Shamal, and his 200 well-armed followers in control of about 40 local villages.

The central government has never had much control in Faryab, a remote province abutting the border with Turkmenistan, and home to a million people, most of them ethnically Uzbek. It currently has little control in the towns and practically none outside them. Most of Faryab is in thrall to an array of warring factions, backed by the main Uzbek warlord, General Rashid Dostum, or a coalition of his rivals.

Compared to southern Afghanistan, the north is in fact doing quite well. Mazar-i-Sharif, the country's northern capital, is thronging with pilgrims to the city's fine blue mosque and bustling with trade. Moreover, the killing in Faryab is modest compared to the butchery down south. Five people were killed in Mr Shamal's assault on Kateh Qala in early August, for example. On August 24th, one died and two were injured in Ghunda Sang, a contested village five hours' donkey ride away. By contrast, over 2,000 people have been killed in the south this year; a suicide bombing this week in southern Helmand province killed 17 people and injured 47.

Nonetheless, the lower-intensity fighting between warlords is hugely disruptive to the districts affected. Several hundred refugees have fled the fights around Kateh Qala, arriving in the provincial capital, Maimana, with stories of rape and looting by Mr Shamal's men. Such conflict is often over control of lucrative opium-trafficking routes from the south, indicating a deeper corrosion of the Afghan state. “The commanders are very powerful,” says Khail Mohammed, a policeman hunkering behind the sand bags in Kateh Qala, using the English word by which Afghans call their warlords. “The provincial governor can't do anything about the commanders and neither can the police.”

In Juma Bazaar, near Maimana, a commander called Rahmatullah Rais, loyal to General Dostum's Jumbesh party, rules the roost. Locals claim that, like most commanders, Mr Rais levies a produce tax, which he calls zakat iball, after the Muslim tithe to feed the poor, according to his whim. They also say he grabs their water, which after four droughts in five years is a precious resource, and accuse him of the murder of six men in the town earlier this year. Mr Rais denies involvement in the killings and says he

hasn't levied zakat iball for a decade.

In an effort to bring such brigands to heel, two weeks ago, the government sent troops and policemen from Kabul to Faryab. But they failed to nab the prime commander, Mr Shamal. He escaped after the provincial deputy police chief, Abdul Rahman Sabir—by his own admission—warned him of the force's approach. To excuse this, Mr Sabir said he had too few policemen to take Mr Shamal on. Another possible reason, which shows Afghanistan's twisted loyalties, is that both men support the Jumbesh party. Mr Sabir used to be a bodyguard of General Dostum's, and many local policemen belong to Jumbesh.

The power struggle in Faryab comes at a time when General Dostum appears increasingly frustrated that the senior cabinet position he covets he has not been given. A former deputy defence minister, and adviser to President Hamid Karzai, he currently holds the impotent position of army chief of staff. This reflects well on Mr Karzai. Having been forced to find top jobs for many warlord allies of America, after it toppled the Taliban and installed him in power, he has weeded out one or two of the most brutish, including General Dostum. The general is popular in his northern fief, but has a reputation for cruelty. Amongst the allegations against him is that he was responsible for the suffocation of hundreds of Taliban prisoners during the 2001 American invasion. Eager to assuage Western criticism of his methods, the general promised to kill any of his commanders responsible for atrocities.

The feuding in the north has exasperated the government, which feels threatened by the mayhem in the south, and is increasingly composed of Pushtuns, the biggest group. On August 11th Zarar Ahmad Moqbel, the interior minister, warned Jumbesh and its main rival, Azadi, that they risked being banned for maintaining illegal militias in Faryab. Jumbesh responded with organised demonstrations in support of General Dostum in several northern cities. The party's supporters pointed out that the government is considering re-arming local militias in the south to fight the resurgent Taliban. It was precisely for fear of setting a dangerous precedent that the government's critics had attacked this proposal.

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Pakistan

A quick death

Aug 31st 2006 | LAHORE
From The Economist print edition

The army kills a Baluch chieftain

AFP

Akbar Bugti got the hump

"IT IS better to die quickly in the mountain than slowly in bed," Akbar Bugti, a rebellious tribal leader in Pakistan's western province of Baluchistan, recently told *The Economist*. On August 26th Mr Bugti, an octogenarian aristocrat, former minister, murderer and terrific charmer, got his preference. The government launched an attack on the cave in which he had taken refuge with his retainers, causing the roof to collapse, and burying those inside. In the following days, a three-year campaign of bomb blasts and arson by Baluch nationalists, including Mr Bugti's tribesfolk, intensified across the province, claiming at least six lives. In Quetta, the provincial capital, funeral prayers for Mr Bugti drew 10,000 mourners, and sparked violent protests. In parliament and in the media, the incident triggered fresh criticism of General Pervez Musharraf, the president and army chief, and calls for civilian rule.

Mr Bugti, chief of the Bugti tribe, had given trouble to the government on and off since Pakistan was created. In his latest campaign the Bugtis and their neighbours of the Marri tribe took arms against the government, bombing railways and murdering policemen in a bid for a bigger share of Baluchistan's natural-gas revenues, and more rights generally.

If their protest was violent, their cause was in many ways just. Baluchistan, Pakistan's biggest and most inhospitable province, is also the poorest and most marginalised. Leaders of General Musharraf's loyal ruling party recognised this. Last year they negotiated a deal with Mr Bugti that would have given Baluchistan a fairer whack of its gas wealth and government jobs, among other measures. But General Musharraf and his government, which says that the Baluch rebels receive money from India and safe haven in Afghanistan, would have none of this. After a rally attended by the president was rocketed by Bugti militants last December, the army attacked Mr Bugti's village stronghold, then pursued the chief into the hills.

The government calculated that by eliminating Mr Bugti it would undermine the insurgency. This logic underpinned its counter-insurgency strategy, with Mr Musharraf often blaming the war on the rebellious Bugti and Marri chiefs and another aged chieftain, of the smaller Mengal tribe. It reckoned that few Baluchis, nationalist or not, would shed tears for Mr Bugti, who was arrogant and reckless, terrorised dissident kinsmen and political opponents, and betrayed his allies.

It should have reckoned differently. Antediluvian though he was, Mr Bugti was quite successful in casting himself as the champion of every angry Baluch. More progressive Baluch nationalist groups, furiously opposed to the feudal system that enriched Mr Bugti and his dissolute relatives, gave tacit support to his campaign. And indeed, another Baluch insurgent group, the Baluchistan Liberation Army (BLA), is believed to include well-educated, city-raised youths as well as bearded tribesmen.

In a sign that the insurgency may outlast Mr Bugti, a bomb exploded on August 29th in a crowded shopping centre in Lahore, the capital of Punjab province, injuring four people. Punjabis feared that the BLA had extended its operations to their province, from where the army is mainly recruited. Several Punjabi "settlers" in Baluchistan, as any non-Baluchi there is called, were attacked by the BLA this week. But Mr Bugti's funeral prayers (his body has not been released by the government) were attended by many local Pushtun, in a rare show of solidarity between the province's two main ethnic groups. Pro-government politicians who tried to attend the mourning were pushed angrily away.

Beyond Baluchistan, too, Mr Bugti's cause has won support. Honour and courage are prized in Pakistan. And Mr Bugti, frail and ailing, but unbending before powerful generals in a country that is rapidly tiring of them, had much of both. Indeed, the more General Musharraf picked on Mr Bugti, the more Pakistanis admired him. The disorganised parliamentary opposition was swift to recognise this. On August 29th the chamber rang with catcalls, accusing General Musharraf of murder and recommending that he should be hanged; opposition politicians launched an unsuccessful vote of no-confidence against the government the same day. Though Quetta grew calmer as the week passed, strikes and protests were promised across the country.

Analysts in Pakistan have compared Mr Bugti's martyrdom in the eyes of Baluchis to the execution of Pakistan's first elected prime minister, Zulfikar Ali Bhutto, a Sindhi, by a military government in 1979. Bhutto's death gave focus to Sindhi nationalism; Sindhis still vote for the dead man's daughter, Benazir. Mr Bugti's demise, many fear, can only accelerate the unravelling of a badly divided nation.

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Economist.com WORLD ASIA

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Australia

Dry as a dead dingo's donger

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From The Economist print edition

Fear over water security is increasingly dominating Australian elections

IF HE wins re-election on September 9th, Peter Beattie, Queensland's premier, has promised to hold a referendum on whether to turn sewage effluent into drinking water. As campaign pledges go, this is hardly appetising. Yet it illustrates the increasing prominence of water, or the lack of it, in Australian politics. So does the timing of the poll, which Mr Beattie was careful to call shortly before summer brings yet more water restrictions to Queensland's densely populated south-east.

The world's driest inhabited continent, Australia is facing water shortages unprecedented in the two centuries since Europeans settled it. There is a long-running drought in the country's east, the main farming belt. Sydney, the biggest city, whose main supply reservoir is just 40% full, and Canberra, the capital, are both on indefinite water restrictions. The Murray River and Darling River (known as the Murray Darling Basin, or MDB), which supply more than two-thirds of Australia's farming irrigation, are flowing at their lowest levels in a century.

The rivers run through three states whose separate laws on how much water farmers can extract from them have hampered conservation efforts. Seeking to overcome this, in 2004 the federal and state governments set up a national water market, allowing farmers to trade water across state borders, and governments to buy water. The hope is that the market will see water reallocated to regions that use it most efficiently, and that meanwhile degradation of the MDB will be reversed. It will take about a decade to see if this is the case.

In Queensland, with one of the faster-growing populations in Australia, Mr Beattie proposes also to build two new dams to serve Brisbane, the capital, and to pipe water 1,200km (750 miles) from the north of the state. Yet many have criticised these proposed schemes for being too costly and damaging to the environment. The proposal to recycle Queenslanders' sewage may also be frowned on. On July 29th voters in Toowoomba, a town in Queensland whose water is running out, voted against it.

According to recent polling, Mr Beattie is likely to win the forthcoming election at any rate. He is popular, and the opposition is not. But Australian politicians will soon have to find better ways to soothe public fears over the water crisis. “People are frightened of running out of water,” says Peter Cullen, an agricultural scientist who lobbied for the market, “and they expect governments to provide it.”

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Iraq

Holding the ring in the capital

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Getty Images

Embedded with American troops in a volatile district, our correspondent asks how long they can prevent an all-out sectarian war

IN THE square outside Baghdad's Abu Hanifa mosque, an American army captain sits and chats with a group of municipal leaders. For the past few hours he has been patrolling Adhamiya, the Sunnis' main enclave in Shia-dominated eastern Baghdad, listening to residents complain about how the country's Shia-led government—"a government of Iran", as one Sunni notable glumly puts it—gives them neither protection from roving death squads nor basic services such as electricity. The American soldiers respond that it is hard to do much reconstruction in Adhamiya when you are constantly shot at by local (ie, Sunni) insurgents. One of the Iraqis is stridently insisting that Adhamiya's people are all good law-abiding citizens, when a grenade goes off across the square, probably tossed over a wall by an insurgent as a reminder that, despite the Americans, they are still around. "See," says the captain, without missing a beat. "That's likely why we don't provide services."

Like many of the Sunnis in Adhamiya, who were once adamantly hostile to the American occupation, they now beg the Americans to stay to protect them against their Shia neighbours at the same time as continuing to harbour a local guerrilla network. On the other side of the sectarian divide, the Shia-led government of Nuri al-Maliki, whose authority the Americans are trying to bolster, is beholden for political support to a radical movement led by a fiery Shia cleric, Muqtada al-Sadr, whose Mahdi Army militia is blamed for both death-squad killings of Sunni civilians and attacks on American and British troops. Three months after its creation, Iraq's national unity government still seems less of a force to bring Sunni and Shia together than a mechanism for both sides to try to exploit the state, using government institutions and American firepower as tools against each other in a struggle for power.

Most of the killing, they say, is done by a handful of armed bands, vying for control of turf or kidnapping members of the other sects for profit. Despite a handful of large-scale sectarian attacks, including an infamous massacre in Baghdad's Jihad district by Shia militias in June and subsequent Sunni assaults on Shia neighbourhoods, they remain the exception to a norm of more furtive kidnappings or car bombings. Though the groups may claim allegiance to the Mahdi Army or some Sunni insurgent group, in practice they are often just street gangs.

In Adhamiya, for example, Iraqi officers say that some of the more dangerous guerrillas are teenagers or

in their early 20s, often addicted to drugs, who may have ties to more experienced and ideologically committed guerrillas but who are themselves mostly in it for the thrills and prestige. Many, perhaps most, of the killings attributed to the Mahdi Army are done by groups that pay lip service to Mr Sadr's authority but in fact run their own operations. Mr Sadr himself frequently calls for Shia-Sunni reconciliation.

In any event, these gangs are fairly safe in their home districts, either out of fear or sympathy. More to the point, they clearly have powerful protectors outside. Despite scarce medical facilities in their own districts, the Sunnis of Adhamiya avoid using Baghdad's largest hospital complex, which is only a few kilometres to their south.

The health minister, Ali al-Shemmari, is a radical Sadrist. The medical complex near Adhamiya now hosts hundreds of Mahdi Army militants as ministerial security guards. Two weeks ago Iraqi soldiers from the regular army, backed by Americans, arrested five of the guards on suspicion of having kidnapped some Sunni patients, prompting angry statements from the minister demanding the guards' release. American soldiers say that local Sunni insurgents also have friends in high places willing to pull strings on their behalf: one of the best indications that the Americans have nabbed someone important is the number of telephone calls they get, demanding their immediate release.

The one institution that does inspire a measure of trust on both sides of the sectarian line is Iraq's regular army. Many officials admit that attempts to build a national police force have failed and that the army is the best hope for containing both the Sunni insurgents and the Shia militias.

For sure, the army is not immune to Iraq's sectarian poison. In a battalion based near Adhamiya, some of the predominantly Shia soldiers thought some of their Sunni officers were soft on the local insurgents, but after being hit by both the Mahdi Army and by roadside bombs set off by Sunni insurgents, they were eager to go into action against both sides. Like other Iraqi army units, it suffered from a high rate of desertion. (“This is why we get attacked, this is why we find bodies,” cursed one of its staff officers as he looked at a map of checkpoints that he was unable to man properly.) Still, it was capable, on its own, of launching raids, deploying patrols and doing what the Americans call “controlling its battle space”, something that only a few Iraqi units could do a year ago.

Yet the size of Iraq's army has stayed constant at around 115,000 troops for the past six months, and though it may get better it is unlikely to get much bigger. Together with American forces, recently beefed up to 138,000 from 127,000, they seem able to keep the violence at a slow boil, disrupting the militias and insurgents by making arrests, seizing weapons caches and preventing them from organising large-scale sectarian cleansing.

In early August, the army started to carry out a series of sweeps across Baghdad dubbed Operation Together Forward, which seem, at least temporarily, to have reduced the bloodshed in some of the more dangerous parts of the capital. The Americans claim that the murder rate dropped by 46% in August from July. Morgue officials, who say they received a record 1,800 corpses in July, also say they got fewer bodies in August. “We're actually seeing some progress out there,” said an American major-general, William Caldwell, this week. Britain's top soldier in Iraq, Lieutenant-General Robert Fry, also said last month that security had improved.

Better here, worse there

But Iraq's violence tends to migrate from place to place, with insurgents and militias lying low in districts where there are more troops, then stepping up attacks in places where there are fewer. This week, hopes of progress in the capital were dampened by reports of fiercer fighting between Iraqi security forces and Shia militias in the southern town of Diwaniya, where at least 73 people died. Likewise, the killing rate may soar again in Baghdad if the reinforcements are needed elsewhere.

Meanwhile, Mr Maliki is pressing on with his national reconciliation effort. Lieutenant-General Fry says that coalition forces will continue military operations “to separate the two sides of the sectarian conflict” but that such operations were meant to “hold the ring” until the politicians come up with a solution. More pessimistic observers see a looming partition of the capital into a Sunni west and a Shia east. Still others point out that, in a city of 6m, many of whom still live in mixed-sectarian districts, a death toll of dozens a day could be sustained for many years yet.

The Americans may not have the political will to keep their troops there into the next decade. For now,

Iraq is in a peculiar state: it has a national unity government under foreign military occupation that is trying to stop a low-level civil war from becoming all-out. Last month's apparent dip in the death rate suggests that the Americans and their allies, if they stay, can keep sectarian violence at a low simmer. But the will to stay in Iraq may be ebbing, and Iraqi politicians have yet to produce a government that can be confident of surviving their departure.

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Algeria

Reconciliation, up to a point

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AFP

Bouteflika fingers the doubters

The wounds from the bloody civil war may not heal completely

AT THE gleaming new airport in Algiers, President Abdelaziz Bouteflika beams down from a giant poster, a dove perched oddly on his forearm. Families mill around in the arrivals hall, no longer forced to wait outside the airport building for fear of bombs exploding. Algeria is very different from a decade ago, when Islamists and security forces were mired in a bloodbath in which as many as 200,000 people died. But Mr Bouteflika's effort to secure a final settlement of the conflict, embodied in his Charter for Peace and National Reconciliation, remains tricky.

The charter's biggest plank is a six-month amnesty that expired this week: it offered to pardon all Islamist militants not deemed responsible for massacres, rapes or planting bombs in public places. Just before the deadline, the interior minister said that between 250 and 300 militants had given themselves up. At least 2,200 people, including convicted militants and terrorism suspects awaiting trial, have been freed from prison since March.

Only a few hundred fighters are thought to remain at large, though no exact figure is known. But suggestions by political parties that the amnesty be extended have fuelled speculation that fewer people surrendered than the government had hoped. A surge of violence starting in April showed that those holding out—mainly militants belonging to the Salafist Group for Call and Combat—are still numerous enough to prevent a return to normality in some parts of the country. A state of emergency has been prolonged for a 14th year. Militants are also involved in extortion and smuggling, which Algeria's security forces are less equipped to deal with than the insurgency they have just about managed to extinguish.

Nor have the former leaders of Algeria's Islamist movement been wholly reconciled, including some chiefs of the Islamic Salvation Front, better known by its French acronym, FIS, which was poised to win elections in early 1992 when the army, fearing an Iranian-style revolution, stepped in and triggered the conflict. Pardoned but monitored or in exile abroad, they are still banned from politics. Yet they can still tap into the roots of extremism: wide inequality, high youth unemployment, urban criminal networks.

But those who speak up for the victims of the violence have been left powerless by the peace charter. Families of the victims of terrorism have to watch silently as militants are pardoned or freed without trial; and families of the victims of the security forces, which have been implicated in some of the worst massacres of the 1990s and caused thousands of people to “disappear”, have been told to drop their

cases in return for paltry compensation.

This has helped Mr Bouteflika mollify the generals who brought him to power in 1999, who agreed to his re-election in 2004 but who resent his partial accommodation with the Islamists. He has largely wriggled free of the generals' grasp. But his bad health, which has caused him to fly to France for medical treatment twice in the past nine months, probably poses more of a threat to his ability to stay in power.

With an economic development plan well funded by profits from oil and gas and with many of the Islamists mollified by a trickle of concessions, the risk of a resumption of violence has lessened. But for those who know someone killed in circumstances that are unexplained or unaccounted for, the prospect of truth or justice has dwindled too—which means that many Algerians, despite the grandiose aims of Mr Bouteflika's charter, will probably never be truly reconciled.

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Kenya

A prodigal son

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America's rising star sweeps the Kenyan primary

AP

Granny shows him the way

KENYA swooned this week at the visit of Barack Obama, a Democrat senator from Illinois. It was a homecoming, of sorts; Mr Obama's father was born in a village in western Kenya. The reception was rapturous, with the country briefly united in its belief that “their boy” could become America's next president—and its first non-white one. For Mr Obama, the trip was a chance to improve his foreign-policy credentials. It was also a usefully public summer holiday, with a visit to his 83-year-old grandmother, Sally Hussein Obama, who fed her grandson porridge and chicken at her homestead.

Predictably, Kenyan politicians jostled to bathe in Mr Obama's light. The senator did his best to divide time between government and opposition. The embattled president, Mwai Kibaki, had looked forward to being seen at last with a squeaky-clean politician. He was said to be mortified when Mr Obama informed him that Chicago television crews accompanying him had been “shaken down” for hefty bribes at Nairobi airport. And Mr Obama was made into something of a mascot by Raila Odinga, a populist who hopes to succeed Mr Kibaki in next year's elections.

Mr Odinga is a Luo, like Mr Obama's father. That matters in Kenya, where the Luo are one of the larger tribes but feel politically hard done by. When Mr Obama negotiated his motorcade into Kibera, a mostly Luo slum in Nairobi, the crowds welcomed him as one of their own. Perhaps he could help them out of their stinking gutter? Not really, said Mr Obama. He was elected to serve Illinois.

Mr Obama did do a few good turns, however, urging Kenyans to take AIDS tests and championing press freedom. He spoke out against tribalism and corruption. Bringing the message of clean government from Chicago was a stretch, but Mr Obama was probably right that corruption remains the biggest obstacle to Kenya's development. A local newspaperman applauded the straight talk, but noted that if Mr Obama had been a Kenyan he might well have been murdered or exiled for saying the same things to the same crowds.

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Nigeria

Let the games begin

Aug 31st 2006 | ABUJA
From The Economist print edition

Nigerians now have a date for the next election. But little else is certain

AP

Obasanjo names a date—but not his successor

ON AUGUST 29th Olusegun Obasanjo, president of Africa's most populous country, finally announced the date of elections to choose his successor: April 21st 2007. The organisation of these polls, which could mark Nigeria's first successful transition from one civilian government to another since independence in 1960, gives Mr Obasanjo an opportunity to help cement his country's fragile democracy.

It also gives him a chance to efface the criticism he attracted by his failed bid to amend the constitution so that he could run for a third term. He denounced as “evildoers” and “mischief-makers” those who fear he might still exploit civil unrest, particularly in the oil-rich Niger Delta region, to put off elections and form an interim government. Admirable rhetoric. But there is a long way to go if a free and fair election is to take place.

For a start, the country's electoral commission, ultimately accountable to the president, is in a mess. It is wrapped up in red tape, accused by members of the National Assembly of inflating costs and by some politicians of bias. It has barely started the monumental task of registering the country's voters and is unlikely to be equipped to deal with Nigeria's predilection for serious vote-rigging.

Divisions within the ruling People's Democratic Party (PDP) could also undermine the election. The PDP was conceived as a vehicle to bind Nigeria's diverse ethnic and political interests together in support of Mr Obasanjo's presidential candidacy in 1999. It won landslide victories in elections that year and again in 2003.

But now the party has split. Mr Obasanjo appointed too many of his cronies to posts in the party bureaucracy when he bid for a third term, and the party is now struggling to find a consensus candidate. Mr Obasanjo's estranged vice-president, Atiku Abubakar, instrumental in securing past PDP victories, wants to be president, as does Ibrahim Babangida, a former military ruler.

The splits in the elite are unnerving, considering the bloody sectarian violence that often accompanies political divisions in Nigeria. Its 140m people are equally divided between Christians and Muslims and split between three main ethnic groups and hundreds of minorities. The debate over Mr Obasanjo's successor is partly centred on whether his successor should come from the Muslim-dominated north or the Christian-dominated south.

The infighting will probably persist until Mr Obasanjo indicates his choice of successor and tries to rally powerful PDP figures behind him. Opponents would then club together by default. That at least would foster some sense of a democratic competition, by creating rival blocs. The problem is that for now, at least, Mr Obasanjo may be tempted to rely on the law rather than the ballot box to clear his rivals out of the way, thereby hoping to make it easier to impose his own candidate.

Nigeria's anti-corruption agency recently arrested Mr Babangida's son and a business tycoon close to the former general and to Mr Abubakar, whose campaign office was raided by secret-service officers this week. Mr Obasanjo says he just wants to ensure that “criminals and crooks, persons of dubious character, the corrupt and corrupters” do not take over the reins of government. Others have claimed that his actions are politically motivated. In any event, Mr Obasanjo seems confident that he has the security forces on his side. He reshuffled his top brass in May and sacked his powerful national security chief, Aliyu Gusau, who had presidential ambitions of his own.

The jockeying for power has increased the sense of insecurity across the country. Three candidates for governor in different states have been killed in the past two months, while political mafias in some parts of the country have been buying up thugs and unleashing them on each other in anticipation of a bloody race for power.

Adding to the general air of uncertainty is the rising tension in the oil-producing Delta region. Militants have cut production by a fifth this year in a series of attacks on installations; kidnappings of foreign oil workers are frequent. Mr Obasanjo has ordered a security crackdown in the Delta, but that will achieve little without a coherent plan for political reconciliation there.

Nigerians may have a date for the election, but that is small comfort in troubling times. If the violence and instability worsen, and Mr Obasanjo does resort to a “transitional government” to try to prolong his rule, they know one thing: the last time that happened, in 1993, the government was toppled just months later in a military coup.

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Chad

Pump priming

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A grab for more oil money

ON A visit to Chad in July, Paul Wolfowitz, the World Bank's head, having negotiated a deal on how the government should spend its oil revenue, suggested it might rely more on dialogue and less on force to solve other disputes. After all, the president, Idriss Déby, was fighting a debilitating war with rebels backed by Sudan as well as feuding with peaceful opponents who had boycotted a presidential election in May, letting him win a third term unopposed. But the president, obviously unpersuaded, is picking more fights. This week he ordered the expulsion of two big oil firms, renewing the row about oil revenue and further undermining what was once a model development project.

Prospectors first found oil in Chad in the 1960s. But the country was so unstable and so far from the big markets that no one bothered to exploit it until the World Bank agreed to help finance a pipeline through neighbouring Cameroon to the Atlantic Ocean in 1999 (see map). As a condition for its loan, the bank insisted that the government set aside almost all of its 12.5% share of revenue for development. To avoid corruption, the money is funnelled through an account that the bank can freeze.

The World Bank's participation, in turn, persuaded a foreign consortium to develop Chad's oilfields and build the pipeline. This year, the government should earn over $200m from royalties alone, compared with total annual revenue of about $130m before the oil flowed. But Mr Déby dismisses this as “crumbs”. Earlier this year, Chad's parliament passed a law to let him spend his petrodollars as he pleased, in breach of his agreement with the World Bank. It duly suspended disbursements, resuming them only when a new deal was reached, giving the government a shade more leeway over royalties in exchange for a promise to spend more on development from the overall budget.

Now the government claims that Petroliam Nasional (Petronas) of Malaysia and Chevron of America, two of the three firms in the consortium, have not paid enough tax. They say they have, and can provide documents from the ministry of oil to prove it. But the government dismisses these as the work of a rogue minister who has since been fired.

In any case, the bickering about tax may soon be moot. The government set up a state-owned oil firm in July; Mr Déby says it should take over the 60% of the consortium owned by Petronas and Chevron. Later this week he seemed to relent a bit, saying the pair could stay in Chad, as long as they paid their tax bills and ceded some of their shareholding to the new firm. Either way, the government would pocket a much bigger share of the proceeds.

These tax disputes and threats of expulsions smack of “resource nationalism” as practised in Venezuela and Bolivia. Its spread from Latin America to Africa would alarm Western firms. Chad switched diplomatic allegiance recently from Taiwan to China; many oilmen suspect that Chinese firms are waiting in the wings. Some speculate that jockeying among Chad's venal elite lies behind the spat. Whoever has profited, Chad's status as a model of natural-resource management has suffered.

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Turkey's Kurds

The real challenge to secular Turkey

Aug 31st 2006 | DIYARBAKIR
From The Economist print edition

Eyevine

Turks remain stoical in the face of bomb attacks by Kurdish separatists—but extreme Islamism may be a bigger threat to their republic

DESPITE all the progress Turkey has made in modernising its economy and political system, the festering Kurdish problem is unresolved. That was the grim message implied by the bomb attacks that killed three Turks and wounded scores of others in tourist areas across the country this week.

The Kurdistan Freedom Falcons, seen in Turkey as an arm of the Kurdistan Workers' Party (PKK) which has waged a separatist campaign against the Turkish state since 1984, swiftly claimed responsibility for the blasts in Marmaris, Antalya and Istanbul. Ten British visitors to Marmaris were hurt when a remotely-controlled device tore through their minibus. Hours later the Falcons declared on their website that all Turkey would become a “hell” and that tourists should stay away or risk death.

Turkey's political leaders, anxious to limit the effect of the bombs on the country's image, financial rating and tourist business, offered little public comment. Many ordinary folk were equally tight-lipped. Within hours of the blasts, shopkeepers in Antalya resumed business, replacing shattered glass and broken furniture and festooning windows with huge Turkish flags. Markets remained unrattled, with the lira holding firm, and there were few reports of holiday cancellations.

If there was an official response to the attacks, it came from the armed forces. Turkey's new army chief, General Yasar Buyukanit, said during his inaugural speech that the battle against the rebels would be intensified, without elaborating how. The general earned his hawkish reputation when serving in Diyarbakir, capital of the country's mainly Kurdish south-east, during a PKK insurgency in the 1990s.

If the general returned there today, he would scent a new enemy. He would need only to go to Dag Kapi, the city's main square. Over the past week a new Islamist group called Mustazaflar—“the downtrodden”—has erected two giant tents, decked with grotesque photographs of Lebanese children allegedly killed in Israeli air raids.

Throngs of visitors record their outrage in a diary. One entry reads: “Let us all taste the sherbet of martyrdom.” A painting to raise money for “the cause” shows a skull emblazoned with the Star of David, blood dripping from its fangs onto the Muslims' holiest shrine in Mecca.

Nowadays anti-Israeli and anti-American passions run high across Turkey. But in the Kurdish regions, where the 20th century saw a series of ethnic rebellions with religious undertones, such displays of Muslim zeal look especially menacing to the masters of Turkey's secular republic.

This very point was made by the outgoing army chief, General Hilmi Ozkok, who said political Islam had surpassed the PKK (whose ideological roots are in nationalism and Marxism) as the big peril in the south-east. Until recently rallies backing the rebels were the biggest crowd-pullers in places like Diyarbakir. Nowadays demonstrations to protest against Danish caricatures of Muhammad, or public celebrations of the Prophet's birth, are more likely to draw Kurds onto the streets.

In Diyarbakir prayer rooms have popped up in once secular social clubs. Around 60 new Islamically-minded groups have formed in recent years, offering scholarships, financial aid and “moral guidance” to the poor. Although such groups disavow violence, their members claim that as many as 500 local youths have gone to Lebanon in the past month to “help” their Muslim comrades. Enrolment at a local summer course in Koranic studies nearly doubled this year, to 20,000.

Diyarbakir's governor, Efkan Ala, is a pious Muslim intellectual, whose liberal approach is widely appreciated. He agrees that global jihadism has had a spillover effect in the conservative, Kurdish provinces of Turkey that border Iran, Iraq and Syria. Yet Mr Ala insists that radical Islam can pose a threat only if “certain forces” decide to make it one.

Mr Ala was alluding to rogue members of the security forces who secretly armed fighters of the “Kurdish Hizbullah” movement throughout the separatist war of the 1990s. Kurdish Hizbullah—which has no links to its Lebanese namesake—was once considered useful to Turkey's authorities because it fought the PKK.

When the PKK called off its insurgency after the capture of its leader, Abdullah Ocalan, in 1999, security forces raided Hizbullah cells across the country and killed the group's leader in an Istanbul shootout. The rebels ended their truce in 2004, citing the government's refusal to grant an amnesty that would cover PKK fighters and all their leaders, including Mr Ocalan. Mr Ala says the real reason the PKK resumed attacks was to reassert its waning influence in the face of reforms encouraged by the European Union. Thanks to these reforms, Kurds can now publish and broadcast in their own tongue.

So far the resurgence of PKK violence has not prompted a complete reverse of the government's efforts to give Kurds a better deal. The government is ploughing ahead with a repatriation scheme for hundreds of thousands of Kurds who were evicted from villages during the army's scorched-earth campaign of the 1990s.

In Tunceli, one of the provinces worst hit by the conflict, the governor, Mustafa Erkal, says 14 villages have been rebuilt since 2002. Songul Erol Abdil, the town's first female mayor and an activist in a large pro-Kurdish movement, the Democratic Society Party, acknowledges that Mr Erkal has played a constructive role. She says the governor helped restrain the security forces after the PKK killed two policemen in a bomb attack near Tunceli on August 13th. “In the old days they would have fired on civilians for revenge,” she says.

Kurdish eyes are now trained on a case filed by two Kurdish politicians with the European Court of Human Rights. Resul Sadak and Mehmet

AFP

Yumak won a combined total of 46% of the vote in Sirnak province in the 2002 parliamentary polls. But like 51 other contestants, they were unable to win seats because their now defunct party failed to get the minimum 10% of the national vote that is needed for representation in parliament.

The Kurds say the law breaks European norms of democracy. A hearing is scheduled for September 5th. Should the court rule in their favour, some Kurds dream of the national threshold being reduced before the parliamentary elections that must take place by November 2007.

But with each PKK attack, official attitudes, and those of many Turkish voters, harden. So does the widespread Turkish nationalist feeling which has dented the government's zeal for EU-inspired reforms.

The mild Islamists who came to power in 2002, vowing to lead the country into Europe, barely mention the EU these days. Human-rights groups say a recently amended anti-terror law has rolled back many improvements to civil liberties. For example, suspects no longer have access to lawyers for the first 24 hours of their detention—a change which gives free rein to torturers, according to Tahir Elci, a human-rights advocate in Diyarbakir.

Flying the rebel flag in Diyarbakir

The EU's moral power to oppose such measures is waning; polls suggest that support for EU entry has dipped to half the electorate from three-quarters only a year ago. Meanwhile, squeezed between PKK violence and Turkish nationalism, a growing number of Kurds are turning to radical forms of Islam.

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Turkish Kurds in Iraq

We want peace, they say

Aug 31st 2006 | KANDIL MOUNTAINS
From The Economist print edition

Turkish Kurds in Iraq are under pressure from all sides

AT THE edge of a meadow, high up in Iraq's mountainous northern frontier region, a group of Turkey's most wanted men are having a picnic. Surrounded by wild flowers and walnut trees and with the giant spurs of the Kandil mountains as a backdrop, they pass round plates heaving with figs and grapes, and clap along to Kurdish folk songs crackling out from their radio. These senior men in the Kurdistan Workers' Party (PKK) have helped mastermind the long and bloody guerrilla war across the border in Turkey. But as they sip glasses of sweet cardamom tea, the bucolic bliss is shattered by a large blast in the valley below. Fighter planes thought to be Turkish roar overhead. The picnic is abruptly declared over.

For the past month, Turkish and Iranian forces on their own sides of the border with Iraq have apparently co-ordinated their artillery attacks on the PKK's Iraqi haven in an effort to flush out the guerrillas, thought to number about 5,000, and destroy their camps. Last week the Turkish air force is said to have attacked them. The governments in Ankara and Tehran say that rebels loyal both to the PKK and to its sister party in Iran, the Kurdistan Free Life Party, known as Pejak, have launched cross-border attacks from their Iraqi havens.

Though recent clashes between the PKK and the Turkish army have been smaller than those of the 1980s and 1990s, they are occurring in a different setting, with Iraqi Kurdistan now virtually independent and far stronger than hitherto. Also new is the keenness of the Iranians to share intelligence with the Turks in the hope of pulling them out of America's orbit. (America this week named a senior general to help tackle the “terrorist threat of the PKK”.)

The Iraqi government, for its part, says it has closed down the offices of PKK sympathisers in Baghdad and in Arbil, Iraqi Kurdistan's capital. But American and other Western diplomats in Baghdad are worried that concerted military action against PKK bases on Iraqi soil may alienate Iraq's Kurds.

Iraq's two main Kurdish parties, Massoud Barzani's Kurdistan Democratic Party and Jalal Talabani's Patriotic Union of Kurdistan, say they want the PKK to leave its remote fastnesses in Iraqi Kurdistan. But they want to negotiate the PKK's departure, not expel it by force. Iraq's Kurds, they argue, are ready to mediate. Many Iraqi Kurds say Turkey should offer an amnesty to encourage the PKK to stop fighting and participate in peaceful politics. In any case, sheltering in their cave on the edge of a precipice, the PKK leaders say they do not need to send fighters from Iraq to Turkey.

Moreover, they say they have moved from demanding a greater Kurdistan, embracing the Kurds of Turkey, Iran, Iraq and Syria in a single Marxist state, to a new set of aims: federalism, Western-style democracy and women's rights. They condemned this week's bombings in Turkey, distancing themselves from the Kurdistan Freedom Falcons, better known by their Turkish acronym TAK. Some PKK leaders claim that Turkish military intelligence has infiltrated the TAK in order to discredit the PKK. “We will declare a ceasefire as soon as Turkey says it is ready to enter into dialogue,” says Rostam Judi, a PKK leader.

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Former Yugoslavia

Talking business

Aug 31st 2006 | SARAJEVO
From The Economist print edition

When commerce beckons, political and linguistic barriers come tumbling down

ANYONE interested in doing business in the region that used to be called Yugoslavia might be tempted not to bother—on the ground that its successor states were all very small, obsessed with minor linguistic and cultural differences, and generally not worth the effort.

A few years ago this might have been true, but now things have changed. Have a browse in a branch of Buybook, a Bosnian bookseller. In one section are shelves of “foreign” titles (by British or French writers, for example), and in another books by “local” authors. But “local” in this case does not mean only Bosnian. It means anyone writing in the language once called Serbo-Croatian—which is spoken, with only small variations, in Serbia, Croatia, Bosnia and Montenegro.

In business and economics, as well as linguistics and culture, the old Yugoslav space is re-emerging. Damir Uzunovic, the director of Buybook, complains that it is still hard to sell Bosnian books in Serbia; but otherwise the book trade between all the countries which speak *nas jezik*—our language, as it is sometimes called in a desperate effort to sound neutral—has been flourishing.

After all, together the populations of Serbia, Montenegro, Croatia and Bosnia make up a market of some 16m people. Macedonians and Slovenes, also ex-Yugoslavs, speak different but closely related tongues; if you add them, the number swells to 20m. It grows to 22m if you throw in the Kosovo Albanians—most of whom understand the common Slavic language even if they abhor it. In any case, the simple fact that all members of the quarrelsome ex-Yugoslav family can understand one another (linguistically at least) makes it easy to market products of every kind.

Before the Yugoslav wars of the 1990s the country had plenty of strong brands. When it fell apart those brands lost most of their devotees. Now, partly thanks to the normalisation of relations between the former Yugoslav republics, those familiar labels are surging back. They include everything from Croatian chocolates to Slovene juices to Montenegrin wines.

Some of the change is psychological. A few years ago Croatian radio stations would not play Serbian pop. That taboo has now gone. Radio stations which specialise in “Yu-nostalgia” and festivals celebrating the music that all Yugoslavs once shared have become wildly popular. The best locally produced film about the wars—“Vukovar: The Final Cut”—is a joint Serbian-Croatian production. It tells the story of the devastating siege of the eastern Croatian town in 1991.

The re-emergence of a Yugoslav market in goods and culture has been helped by a fairly general economic recovery. People now have more money to spend, and they are using some of their extra cash to pay for cable-television packages that serve up broadcasts (and advertisements) from across the old country. In recent years Merkator, a Slovene supermarket chain, has made strong advances across the region. Croatia's main petrol company, INA, is also recovering some lost ground outside its home territory.

In diplomacy as well as commerce, the ex-Yugoslav states are getting along better and at last coming to recognise that they have common interests. But that may not suit everybody. Even though Serbia is a long way from joining the European Union, its interpreters had been licking their lips at the thought of thousands of pages of EU rules and regulations needing translation. Imagine their disappointment when the Croats, keen to smooth Serbia's European path, simply sent their Serbian colleagues all the translations they had already made. This left just a little tidying up (and a change of script from Latin to Cyrillic) to be done in order to convert the documents from the Croatian language to the slightly different Serbian.

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Italy and immigration

Sing a song of xenophobia

Aug 31st 2006 | ROME
From The Economist print edition

An ex-prime minister warms up for some hard arguments over citizenship

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America's economy and the mid-terms
Hedge fund hegemony
A home for the Kurds
Five years on

Dark shadows over Brescia

AS MIGHT be expected of a keen amateur crooner, Silvio Berlusconi has an outstanding sense of timing, even if the sounds that come out are not pleasing to every ear. On August 25th Italy's opposition leader told a meeting of conservative Roman Catholics that he and his centre-right allies believed in an Italy that was “Catholic and for Italians”, whereas the centre-left camp headed by Romano Prodi, the prime minister, wanted a “multi-ethnic” nation.

Since Italy is already multi-ethnic—at least 6.5% of the population is thought to be made up of legal and illegal immigrants—Mr Berlusconi presumably meant multi-religious and multicultural. In any event his remark signalled that race and identity will be a hot topic this autumn. The government plans radical changes to an immigration law introduced by Mr Berlusconi's government in 2002. Before going on holiday, ministers agreed that the time legal immigrants must wait before seeking citizenship should be halved to five years.

For Mr Berlusconi and some of his allies—particularly in the xenophobic Northern League—that is not enough. But what made his comment incendiary was the fact that it came amid a spate of well-publicised crimes that left many wondering if length of stay should be the only condition for citizenship.

The city of Brescia near Milan, which is thought to have Italy's biggest immigrant population (some 13%), has seen seven murders in barely two weeks, most blamed on foreigners. One in particular has pushed the issues of integration and multiculturalism to the fore.

On August 14th Pakistani-born Mohammed Saleem was arrested, accused of murdering his 20-year-old daughter, Hina. Her uncle and brother-in-law have since also been detained. Hina's mistake, it seems, was to have integrated too well. She worked as a waitress, wore jeans and lived with an Italian boyfriend. Her killing has been condemned by local Muslim groups, but that has not stopped even centre-leftists saying that Italians may have been too tolerant of diversity.

Meanwhile Brescia's latest horror—a triple killing, possibly linked to east European organised crime—has prompted a protest by supporters of the far right. It is a situation that calls for care from the government, and responsibility from the opposition.

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Rebranding Germany's spooks

Your friendly local espionage service

Aug 31st 2006 | BERLIN
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The spies get ready for a new building, and a new image

MODERN architectural theory holds that “form follows function”: the design of buildings should—and in fact often does—reflect the purpose and ethos of what goes on inside them. If that is true, Germany's foreign intelligence service is about to undergo a huge transformation.

The Bundesnachrichtendienst (BND), or most of it, anyway, is currently based at a sprawling site near Munich, where lots of stand-alone buildings are hidden behind a high wall. The place seems to epitomise an institution that has always operated on a need-to-know principle: each unit should know only as much as is necessary to do its job and, of course, little is shared with the outside world.

If architecture is any guide, the BND will soon have a very different house culture. By 2011 the agency hopes to have moved into new premises in central Berlin—a huge futuristic structure with lots of glass, a see-through fence and a moat. There will even be a visitors' centre.

What this signals is a new policy of “outreach” and even (if spies can contemplate such a thing) openness: in a post-cold-war era, when threats are multiple not monolithic, the agency feels more need to communicate with the public, and to justify its role as a bulwark against international terror and organised crime. Where information can be imparted, it should be—such, apparently, is the BND's new “need-to-share” philosophy.

The agency is not abandoning its old south German home; most of the technical staff will stay behind, to the relief of the Bavarian authorities. But people already wonder how far the BND can live up to its more accountable image—and become, in the words of Ernst Uhrlau, its president, “a competent, indispensable service provider” for a government whose foreign policy is growing more ambitious.

To people outside Germany, the fact that the BND does quite a useful job may seem evident. In recent years it has chalked up a number of successes—including the organisation, in 2004, of a prisoner swap between Israel and Hizbullah. It might well be called on to repeat that performance soon. But inside Germany doubts about the abilities of the BND, and indeed about the need for a spy service, still run high.

For historical reasons, many Germans are wary of the whole principle of large, shadowy security services: all such agencies bring back memories of the Gestapo, the Nazis' secret police, and of the East German Stasi, which kept files on millions of citizens. And some features of the BND's early history exacerbate its image problem. Its predecessor, the Organisation Gehlen, was founded in 1946 by an eponymous general who had previously been in charge of producing intelligence on the Red Army for Adolf Hitler.

In the early cold war Reinhard Gehlen and his files—which he began stashing away after realising that the Third Reich was doomed—were snapped up by Germany's American occupiers. After he had sidelined some competitors, the opportunistic general established an espionage monopoly, combining not just civil and military but human and signals intelligence. And he created a highly compartmentalised organisation—to avoid infiltration by communists, but also to conceal the embarrassing fact that many of his recruits were ex-Nazis.

These murky origins may help to explain why, in its early days, the BND seemed rather accident-prone. In 1961, for instance, it turned out that its head of counter-intelligence, a veteran of the Nazi special forces, was actually an agent of the KGB. More recently the fall of the Berlin Wall presented the agency with a fresh set of problems. As well as losing its main enemy, it had to face some embarrassing

revelations about continuing communist infiltration of its ranks, while at the same time adapting to a new set of threats, from Balkan wars to loose nukes.

A decade of budget cuts followed, along with infighting at the top, lack of oversight and, as a result, further scandals. Only in the late 1990s did the German government see that it needed better spooks.

Much has already changed since. A culture of pointless secrecy has been dropped: among the signs of a new openness are a series of BND souvenirs (including underwear stamped “confidential matter”), occasional background briefings for the press and an annual public symposium on a weighty subject.

More important, of the institution's 6,000 employees a third are recent recruits, most of them hired on the open market rather than secretly commandeered through an old-boys' network. The agency's leadership and analysis units have already been moved to Berlin.

At its 50th anniversary last May the BND proclaimed its rebirth as a modern intelligence agency—a protector of “peace and quiet”, in the words of a cheesy promotional video. Unfortunately for the spooks, their party was spoiled by a fresh outbreak of “scandals” which disrupted the makeover plans.

One embarrassment was the revelation that its internal-security department was illegally spying on journalists. Another—especially in the eyes of leftist voters—was the news that two German spies in Baghdad were eagerly passing information to the Americans during the Iraq war.

In the end, though, the ferment caused by these revelations may work to the advantage of the spooks. It is apparently forcing an acceleration of internal reforms. Mr Uhrlau is consulting many people in the hope of devising a better organisational structure, and he has asked an historian to study the BND's past, even its dark bits.

Eric Gujer, the author of a recent book about the BND, says it must learn to treat and use its own staff better: poor personnel management has been at the root of most recent failures. But in many people's view the BND alone cannot solve the malaise that dogs German espionage. It would help if politicians were less quick to exploit scandals and more willing to defend the idea that in a dangerous world Germany really does need a decent intelligence service.

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Charlemagne

Just a moment, or possibly more

Aug 31st 2006
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Europe now has a chance to play more than a marginal role in the Middle East

“IT'S Europe's moment in the Arab-Israeli arena,” says Martin Indyk, a former American ambassador to Israel and head of the Saban Centre, a Washington DC think-tank. If true, that may mean a big change in one of the world's most dangerous spots.

Europeans have been marginal in the Middle East for years. Too pro-Palestinian to be trusted by Israel, they have not had much power or influence over the Arabs either. For many Americans, Europe's current involvement in Lebanon continues the tradition of irrelevance. It has been rather like a “three-stooges” show in which Jacques Chirac grandiloquently announces that France will save the world, offers to send three men and a popgun, and is finally shamed by—of all nations—Italy into sending 2,000 troops, which still won't be enough. Given an opportunity to show leadership in the region, Europe fluffs it. Again.

Is that too harsh? Of course, Europe's intervention may yet go horribly wrong, as have so many previous efforts. But to dismiss what is happening in advance is to miss its potential importance. Europeans are sending 7,000 soldiers to the United Nations' peacekeeping force in Lebanon. This, as it happens, is the number of British soldiers in Iraq—not a negligible force. Two or ten years ago, it would have been hard to imagine Europeans taking such a role. Something has clearly changed. Two things, in fact.

So long as America was trying to broker an Arab-Israeli peace (that is, under Bill Clinton), there was no room for more interlocutors; Europeans were relegated to the role of silent paymaster. But George Bush never picked up where Mr Clinton left off.

More immediately, almost everyone in the region is suffering stings of self-doubt—and a crisis of confidence can chasten people into thinking the previously unthinkable. Israel has clearly suffered a shock in Lebanon. But so has Hizbullah, to judge by the admission on television by its leader, Sheikh Hassan Nasrallah, that he would never have ordered the cross-border kidnapping of Israeli soldiers if he had known what Israel's response was going to be. Coincidentally, a spokesman for the Palestinians' Hamas joined in the self-recrimination. He complained, in a newspaper, that “Gaza is suffering under the yoke and anarchy and the swords of thugs” (he didn't mean Israel, for once).

And while it would be too much to claim the Bush administration has been shaken by comparable anxiety (at least in public), America's scope for action in the region is limited, partly by choice and partly by the

fall-out from the occupation of Iraq.

That puts Europe into the unfamiliar position of being the one who hasn't messed up recently. The European-led UN force should give Israel an exit strategy from its Lebanese misadventure. In another European accomplishment, France last year helped America push Syria out of Lebanon—a feat Mr Bush hailed as a triumph (though that was before Israel's war against Hizbullah rained destruction on parts of this model state).

Less well known, but not entirely trivial, the European Union, under an Italian *carabinieri* general, monitors the only land crossing between the Gaza strip and the Arab world, preventing, or at least limiting, weapons smuggling to Hamas.

How sharp are your claws?

The question is whether this activity can amount to anything substantial. Can it, for example, move Israelis and Palestinians towards some sort of peace talks? The European Union is already in the so-called “quartet”, the body that with America, Russia and the UN presides over the so-called “road map” to peace. As part of the quartet, the Europeans have been party to the controversial decision to suspend aid to the Palestinian Authority until Hamas, which now controls the Palestinian legislature, recognises Israel's right to exist and agrees to honour previous agreements between Israel and the Palestinians. The road map, however, is going nowhere, and the isolation of Hamas has so far added to Palestinian misery without persuading it to comply with the quartet's demands.

Mr Chirac says the time is right to relaunch the peace process. But how? European diplomats say that in Lebanon Europe should use its troops, influence and money to help the government of Fouad Siniora bring Hizbullah under control, making it a normal part of the Lebanese polity and less of an instrument of Iran and Syria. In the Palestinian territories the Europeans want to nudge Hamas and the more secular and accommodating Fatah movement towards some sort of coalition agreement, which may in turn help to break the impasse between the Palestinians and Israel.

To do these things, however, the Europeans will have to overcome tough opponents. Hizbullah does not intend to disarm, and neither Syria nor Iran wishes it to stop being a state within a state. Hamas's ideological objection to accepting Israel's right to exist is deeply held. As for Israel, it will not quickly overcome an instinctive distrust of Europe, or its preference for dealing with a superpower that has long been seen as the only outsider with a genuine understanding of the Jewish state's security needs. On that last score, much will depend on how seriously the Europeans in Lebanon are seen to take their job of policing the south and preventing arms transfers to Hizbullah.

Only if the Europeans pass these rather difficult tests will the European moment in the Middle East really amount to something. Italy's foreign minister, Massimo D'Alema, argues that co-operation over Israel, Lebanon and Palestine could help to improve ties with America, by showing that the Europeans and Americans can work together in the Arab-Israeli conflict just as they have already done in their efforts to stop Iran's suspected development of nuclear weapons. It is worth noticing, however, that close transatlantic co-operation on Iran, backed up by a resolution from the Security Council, has not yet persuaded the Islamic Republic to stop uranium enrichment. As Europe is about to rediscover, they play rough in the Middle East.

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Political endgame

Time runs out for Tony

Aug 31st 2006
From The Economist print edition

AFP

Pressure is mounting for the prime minister to say when he is going

LABOUR'S traditional back-to-school ritual is in full swing. According to the script, Tony Blair returns to Downing Street tanned and refreshed, brimming with new ideas to drive the government and the country forward. But while he has been away, discontent has been simmering and now threatens to boil over at the party's annual conference in the last week of September. Speculation mounts that the brooding chancellor, Gordon Brown, will challenge the prime minister's authority there in a lightly coded speech. But Mr Brown declines to go as far as his more excitable supporters want and Mr Blair turns in the kind of performance that briefly reminds everyone why it would be folly to get rid of him. Things calm down—at least for a while.

This year, it's different. As Mr Blair promised to leave his successor “ample time” to settle in before the next election, everyone knows this conference will probably be his last as leader. But there is now a barely containable desire for him to begin his departure by laying out a clear timetable for it. A large number of MPs are said to be ready to sign a letter demanding that Mr Blair use his conference speech to do just that. Nor are these the “usual suspects”—grumpy lefties and Brownites who cannot wait for their place in the sun. The uncomfortable truth for the prime minister is that the broad centre of the party—its most steadfast activists and MPs who in the past have never made trouble for the whips—has decided that it is time for him to go.

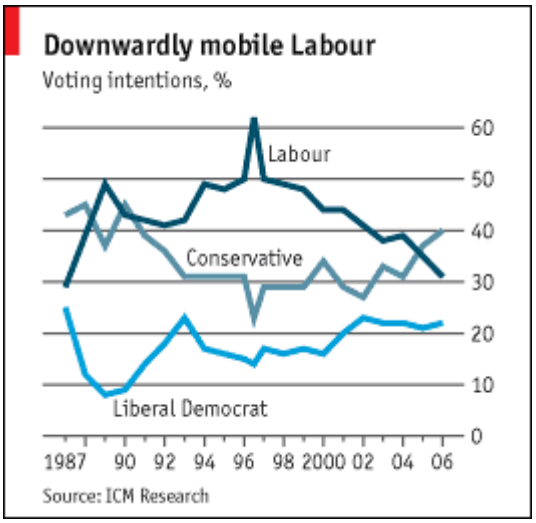
The causes of this discontent are not hard to discern. After a terrible year, dominated by a political funding scandal, bitter feuding over Mr Blair's education reforms and serial disasters at the Home Office, the party was further dismayed by the prime minister's refusal to demand an immediate ceasefire in Lebanon. Once again, it seemed that Mr Blair was willing to do almost anything for the sake of his relationship with George Bush—a relationship that is widely believed to have done Mr Blair and Labour untold electoral damage.

There is a growing feeling that Mr Blair is an insuperable obstacle to any restoration of the party's popularity and, because he will not have to face the voters again, that he may not even care much. A poll by ICM for the *Guardian* newspaper last week provided bleak evidence of mounting dissatisfaction. A single poll, especially one conducted in the dog-days of August, is not definitive. But its results were

shocking to Labour's already fragile morale.

Only 31% of respondents planned to vote for Labour, its lowest rating in 19 years, while 40% said they would vote Conservative, the party's strongest showing in 14 years and enough to secure a narrow election victory. Just as dismaying, on almost every measure of personal economic well-being voters thought they were worse off than when Labour came to power in 1997. Among the MPs keenest for Mr Blair to announce his exit date are those with marginal constituencies in highly taxed London and the south-east, which they fear are vulnerable to the appeal of David Cameron's reviving Tories.

Above all, however, there is frustration over the sense of drift caused by the expectation, but not certainty, that Mr Blair will quit soon after his tenth anniversary as prime minister next May. Only the most reckless can see advantage in forcing him to go sooner. But though nearly everyone claims to want a smooth transition from Mr Blair to Mr Brown, waiting for it to happen, says Don Touhig, a former minister, is “bleeding the Labour Party at its heart”.



Mr Brown, although seething with impatience, understands precisely how dangerous the situation is both for himself and for the government. That is why he has kept so quiet during an eventful August and why, despite the encouragement of his admirers, he will resist the temptation to start explaining what a Brown administration would look like.

The chancellor's more naive supporters yearn for him to demonstrate the ways in which he will differ from Mr Blair. The prime minister, on the other hand, would like him to commit himself unambiguously to a version of New Labour that is indistinguishable from his own. Mr Brown judges neither course to be in his or the party's interest at the moment.

The key to whether Mr Brown inherits a party divided by faction lies in the behaviour over the next few months of Blairite loyalists. On that score, he has grounds for hope. Stephen Byers, a former minister who likes to be known as an “outrider” for Mr Blair's ideas, received wide press coverage this week for suggesting that Labour demonstrate its sympathy with middle England by scrapping inheritance tax. But not a single prominent Blairite was willing to defend him against the predictable counter-attack from Mr Brown's crew.

Even a cabinet member as devoted to Mr Blair as Tessa Jowell, the culture secretary, concedes that uncertainty over his departure plans has become a major distraction for the government. Among those younger ministers whom Mr Blair expects to carry the torch after he goes there is now a readiness to move on.

Mr Blair insists that there are all sorts of important things left for him to do, but only those of his supporters who will leave government with him appear to agree. Ambitious Blairites with their careers ahead of them have concluded that there is little more their hero can realistically achieve, and they want to spare both him and the government a drawn-out and undignified end. Quietly encouraged by Mr Brown, the jostling for places in the next administration is already under way.

Despite claims to the contrary, Mr Blair has lost neither his grip on reality nor his capacity for political calculation. Should he decide in the coming weeks that the arguments for naming a date for his departure now outweigh those against, it would not be entirely surprising. It might even come as a relief to Mr Blair himself.

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Taxing share trades

Licking the stamp duty

Aug 31st 2006
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The Tories revive an old promise to abolish an ancient tax

WILLIAM PITT “THE YOUNGER”, prime minister at the age of 24, was a keen supporter of stamp duty, the tax that Britain still levies on the buying and selling of property and shares. It is, he said in 1797, a tax “easily raised, pressing little on any particular class...and producing a revenue safely and expeditiously collected at small expense”. The fresh-faced men who now run the Conservative Party venerate its youngest-ever leader—one of them recently penned an admiring biography—but they do not share his fiscal enthusiasm.

George Osborne, the shadow chancellor, told the *Sunday Telegraph* last week that he would consider abolishing stamp duty on share trading, which currently claims 0.5% of the purchase price every time British stocks change hands. He argues that the duty depresses share prices, damaging pension funds and inhibiting investment. The London Stock Exchange (LSE) has likened it to a wheel clamp on British businessmen.

Stamp duty also interferes with international takeovers, according to a study by the Institute for Fiscal Studies, a think-tank. It is levied only on companies incorporated in Britain and not, for example, on the 322 overseas firms listed on the LSE. When a foreign firm buys a British one, it pays the duty just once, to buy the shares. Thereafter, the company is no longer British, and its shares may be traded untaxed. This gives foreign suitors an edge over British rivals.

But this grit in the financial system yields some fiscal pearls. The stamp duty on shares raised £3.4 billion ($6.1 billion), about 0.8% of the chancellor's total revenues in the 2005-06 fiscal year, and, as Pitt pointed out, it did so at small expense. It costs just 3p to raise £100 from duty on shares traded electronically. To raise the same from income tax costs £1.42, from corporation tax £1.25.

Popular with taxmen, stamp duty puzzles economists. All governments must claim a share of the fruits of an economy to finance what they do for their citizens. But a stamp duty taxes exchange, not production or value added. It is like children at a birthday party, stripping a layer from the parcel every time it is passed from hand to hand.

To most economists, this is odd. But to Edgar Feige, of the University of Wisconsin-Madison, taxes on transactions make compelling sense. Last year, in a pitch to a panel on tax reform, he argued that America should replace its income, profit and sales taxes with a 0.6% tax on each economic transaction. After all, he says, every exchange, freely undertaken, must add value in some way, improving “the perceived well-being of both parties”. Otherwise they wouldn't do it.

This is not the first time the Tories have contemplated stamping out stamp duty. In government in March 1990, they promised to abolish it as soon as the LSE brought in its new paperless dealing system, “Taurus”. But Taurus never saw daylight, and the tax survived.

If Mr Osborne is to end it, he will have to decide how to replace the revenues it provides. Stamp duty may raise the cost of capital, but so does corporation tax. Income tax, for its part, raises the cost of labour. If replacing this oldest of duties were easy, Pitt the Younger would have done so over two centuries ago. Instead, he chose to double it.

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Muslim communities

Holding it together

Aug 31st 2006 | LEICESTER
From The Economist print edition

A model of peaceful coexistence is under strain

THESE are heady times for the cricket lovers of Leicester: the county team has just won a national competition, and it was feted this week at a grand reception in the town hall. But an even bigger cricketing sensation may be in store. On September 11th local Christian clergy will be taking on the Muslim imams, with a Hindu and an Orthodox Jew acting as umpires. As sportsmen, the imams have impressive form; earlier this year, their soccer team thrashed the clergy—and then the police.

If elaborate networks for consultation, co-operation and simply having fun are the answer to Britain's inter-communal problems, then Leicester has a lot to teach the rest of the country. About a third of its 300,000 inhabitants (and virtually half its schoolchildren) are non-white, with all the religions of South Asia represented.

In part because Leicester's immigrants have done well economically and produced articulate leaders, multiculturalism has been ushered in with relative ease. The fact that many of the newcomers arrived from eastern and southern Africa—where people of South Asian origin were a small but prosperous minority, used to thriving in a cosmopolitan setting—has helped.

As a result, the range of institutions where people of different faiths—as well as the city council, the police, education chiefs and so on—meet and talk is dizzyingly large. Leicester people have played a big role in British (and broader European) efforts to keep Christians, Muslims and other faith groups on cordial terms.

To take one example: Andrew Wingate, a cleric who runs one of Britain's two “training centres” for inter-faith relations, will soon be proffering advice to the Swedish city of Malmo. By his side will be Suleman Nagdi, a businessman who founded the county's Muslim Burial Council and has helped many local authorities in Britain and elsewhere to provide for Islamic funerals and cemeteries.

Leicester has so far served as a model, but it is also worth studying for what it suggests may be problems down the road. Its Muslim community, like Britain's, has up to now had a broadly acknowledged leadership with whom the authorities can do business. That is changing.

Leicestershire's umbrella body is the Federation of Muslim Organisations, whose declared aim is to speak for all shades of Islam. Leicester alone has 27 mosques, including four used by Shia Muslims. Of the Sunni remainder, there are eight that follow the Barelvi tradition (a religious practice which emphasises shrines and holy individuals) while 12 observe the more purist Deobandi line. One mosque is linked to Tablighi Jamaat, an evangelising movement that exhorts Muslims to be more devout.

The federation's role as a spokesman for Leicester Muslims has been challenged by its own former chairman, who has set up a rival body, the Muslim Forum. The new forum seems to articulate a feeling among Barelvis that they have been under-represented, though on many issues—whether to oppose plans for a casino or to challenge British foreign policy—they and the older federation speak with one voice. All this is an exact parallel of developments in the broader British Muslim community—except that in Leicester, the older institutions seem more confident of continuing to hold centre stage.

At least until recently, the nuances which divided Muslims meant little to non-Muslims; but especially since August 10th, when the authorities said they had uncovered a plot to blow up transatlantic flights, the various shades of British Islam have undergone some sharp scrutiny. Tablighi Jamaat, in particular, has been accused of being a breeding-ground for extremism, after reports that some terrorist suspects had fallen under its influence. But Ibrahim Mogra, a nationally prominent imam, indignantly defends

Tablighi as a “movement which can take people from the lowest rungs of society and turn them into shining jewels”.

At the Anglican bishop's residence this week, representatives of all faiths, and the police, gathered for one of the meetings they have held every six weeks since the terror attacks of September 2001. Their assessment? For now, Leicester's community relations remain robust—despite the dismay among Muslims (and many others) over British policy in the Lebanon war. But Muslims are watching closely the fate of the youngsters arrested last month on suspicion of terrorism—and there will be anger if it emerges that the case against them is less than water-tight.

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Saving dialects

Dew you go down to Norfolk?

Aug 31st 2006 | STIBBARD, NORFOLK
From The Economist print edition

School pupils learn to speak as their ancestors did

A RURAL school in Norfolk, buried deep in fields of wheat and poppies, seems an odd place to start a campaign against globalisation. But its 11-year-old pupils are determined to strike a blow for difference by learning their local dialect. The “Lost in Translation” project—started by locals intent on saving their oft-derided accent and local words from extinction—has been running in ten Norfolk schools for a year. The band of believers won a grant of £25,000 ($48,000) from the Heritage Lottery Fund to teach children about a style of speech in danger of disappearing.

Colin Burleigh, a stand-up comedian, has spent the past 12 months schooling pupils at All Saints Primary, in the hamlet of Stibbard, in their local accent. The children rehearsed a play, “The Pedlar of Swaffham”, that Mr Burleigh had rendered into true Norfolk and performed it in June at the Royal Norfolk Show, an agricultural fair that celebrates local arts.

Mr Burleigh is impressed by the children's progress, even though many are “furriners”, as Norfolk people term non-natives. When he tests them on vocabulary, hands shoot up as pupils vie to translate “bishy-barney-bee” into the Queen's English as “ladybird”, or “tittermatorter” as “seesaw”.

Many such words, says Peter Trudgill, a linguistics expert who can trace all his great great-grandparents to a small patch of eastern Norfolk, have been imported from or exported to the rest of the world. “Tittermatorter”, for example, gave birth to the American “teeter-totter”.

Americans also share some grammatical constructions with their East Anglian antecedents: “You had better go to bed dew you be tired in the morning,” says Mr Trudgill—“dew”, or “do”, in this case means “else”—is also used in North Carolina. The distinctive pronunciation of the letter “o” (“road”, for example, is pronounced as “rud”) is common in some coastal areas of New England.

Other words come from French and Dutch. Many European Protestants fled religious persecution to Norwich, Norfolk's capital, in the late 16th century, making it a trilingual city for 300 years. “Dwile”, a Norfolk dishcloth, is derived from the Dutch word for cloth, “dweil”. “Plancher”—a wooden floor in an upstairs room—comes straight from French.

Though the project has run out of cash, schools want to carry on with it. And Mr Trudgill is in fighting mood. “We've been swamped by smart-arse cockneys coming up from London. They come to admire the landscape; now we want them to admire the way we speak.” He may be in luck: a survey by the BBC last year found that, although some rural dialects had died out, many were holding their own against London's much-damned “Estuary” accent.

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University expansion

Psst...fancy a laptop with your degree?

Aug 31st 2006
From The Economist print edition

A small step toward creating a market in university education

Get article background

BRITAIN'S universities are in an awful spin. The number of candidates with confirmed places is 3.7% lower so far this year than last, the University and Colleges Admissions Service (UCAS) said on August 30th. Some blame the imposition of higher tuition fees, others computer chaos at UCAS itself. Top universities were overwhelmed by the 24% of A-level applicants sporting indistinguishable straight As; newer ones are beating the byways for bodies. It was not always thus.

Before the first world war, only a few thousand students went to university. One such was Rupert Brooke, whose poem “Grantchester” evokes a leisurely life at Cambridge, with walks through watermeadows and honey for tea.

These days things are different for most of Britain's university students, who now number around 2m. The spanking new University of East London (UEL), for example, is reached by the Docklands Light Railway. Rather than punting on the river and cosy tea-times, which are still enjoyed by the elite at Oxford and Cambridge, the talk in East London is all about “achievement scholarships”, “employability” and “business partnerships”. Degrees stretch over a flexible number of two-semester years, rather than the traditional three terms over three years. The university offers help to poorer students, a nursery and a library that is open 24 hours a day.

Curiously, both images of education—the weeping willows of Cambridge and the futuristic architecture of UEL—are cherished by the government. Ministers want to see half of all young people in universities by 2010 (numbers have stalled at 42%), without relinquishing the world-class quality of its top institutions. On some measures, Britain accounts for almost half of Europe's 20 best universities.

Many argue that the two goals are incompatible without spending a lot more money. Researchers scrabble for funds, and students complain of large classes and reduced teaching time. To help solve the problem, the government agreed in 2004 to let universities increase tuition fees. From this year they are allowed to charge students up to £3,000 a year, and from 2009 the cap may be removed altogether.

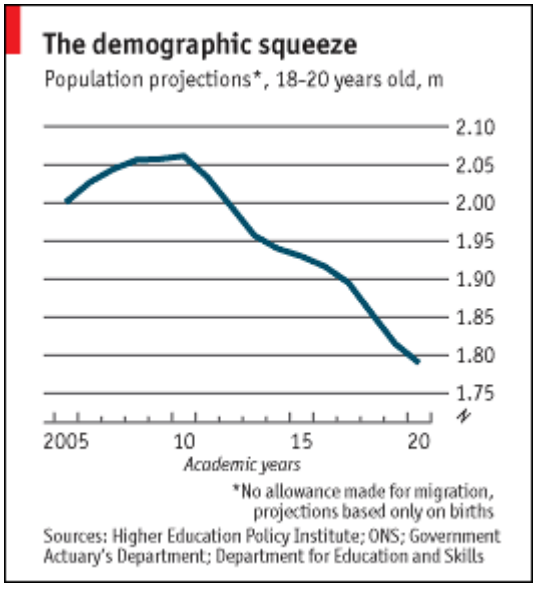
Though low, the fees have introduced a market of sorts into higher education. Universities can offer cut-price tuition, although most have stuck close to the £3,000. Other incentives are more popular. Newcomers to St Mark & St John, a higher-education college linked to Exeter University, will receive free laptops. Many offer scholarships to high achievers and poor students who might be deterred by the new charges.

As universities enter the third week of “clearing”, a last-minute system that matches students with remaining places, the marketing has become weirder. Bradford University is luring students with the chance of winning an MP3 player in a prize draw. Plymouth University students visited Cornish seaside resorts, tempting young holiday-makers with surfboards and cinema vouchers. These offers suggest that supply has outstripped demand. To fill places lesser-known universities are having to look at candidates with “alternative qualifications”. They then face the inevitable consequence of high drop-out rates and failure as some students struggle.

Not so the top universities that make up the “Russell group”, however. Their ranks include the likes of Imperial College London and Bristol University along with Oxford and Cambridge. Swamped with applicants, only half offer any places through

clearing. They have a different problem: they need money to compete for high-calibre students and academics, both British and foreign, who could be tempted overseas by better-heeled American universities or fast-improving institutions in developing countries such as India.

Higher fees and excess supply are causing students to look more critically at just what different universities have to offer. And the crunch could become more acute. The number of 18-year-olds in Britain will drop around 2010 and decline over the following ten years, according to government projections (see chart).



Bahram Bekhradnia, the director of the Higher Education Policy Institute, a think-tank, says the government hasn't a hope of getting 50% of young Britons into higher education by 2010. And the decline of home-grown student numbers will have a "differential effect" on universities, he reckons. Those at the bottom end will have to become increasingly "innovative" about whom they admit and some may not survive.

The Cambridge shades evoked by Rupert Brooke were gentle, nostalgic ones. Many vice-chancellors today are pursued by far more vengeful spectres of empty campuses, deserted laboratories, failed institutions. Markets, after all, create winners—and losers.

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Gap-year students

Knuckling down

Aug 31st 2006
From The Economist print edition

Less play, more work

Get article background

RICH young aristocrats in the 18th century went on a Grand Tour of Europe to further their education. Nowadays even moderately well-off students often take a break between school and university to go round the world. Some teach in Thailand, others trek in Tanzania. Most combine fun with some sort of do-gooding.

The advent of higher tuition fees seemed likely to put paid to this fine British tradition. Students were expected to eschew backpacking in 2005 to avoid the higher annual fees of £3,000 due to come into effect this year. Later generations would scramble to get their degrees and into the job market to repay their debts. But that has not proved the case.

In 2005, according to the Universities and College Admissions Service, 31,059 students accepted by universities deferred taking up their places—more than the 28,435 who did so in 2004. Some were able to lock in lower fees by stating their intention in good time, but many were not. On early estimates, deferred places this year may be running at nearly the 2004 level.

The true number of gap-year students is far higher, however, for more are choosing not to seek a university place until after their break. Tom Griffiths, founder of the website www.gapyear.com, says that as many as 50,000-60,000 young people—equal to more than a tenth of those entering university—are currently taking time out each year. He expects the figure to rise to 100,000 over the next three years.

But gap years now involve more work and less play. According to NatWest, a bank, students starting university this year will graduate with an average debt of £14,779. Such sobering forecasts create an incentive for them to build up savings ahead of time and improve their chances of getting a good job when they graduate.

The work-experience gap year meets both these requirements, and Mr Griffiths says it is one of the fastest growing gap-year options. Schemes such as The Year In Industry offer business experience and a fair salary. William Jackson, a 19-year-old student, has just completed a 12-month work placement at 1 Limited, a Cambridge-based research and development company, and will go to university to read natural sciences in October. He was paid £12,500 and says the salary was “quite a big factor in my decision”, although secondary to gaining industrial experience.

Employers are keen on the working gap year too. More than half of the 500 companies polled in 2005 by I-to-I, a firm that organises gap years, considered students who took a year out to work more “rounded” job candidates than those who went straight from school to university. Some employers run special schemes for them. Deloitte, an accounting firm, has expanded its Scholars Scheme from 42 participants in 2005 to 72 this year. Students who take part will automatically get through to a second round of interviews if they apply as graduates for jobs.

Working before applying to university gives students a chance to try out the labour market before choosing what they want to study. It can also enhance their chances of getting accepted for a popular course. Delyth Chambers, director of admissions at Manchester University, says that experience is particularly attractive in applicants for crowded vocations such as medicine and dentistry.

As universities get dearer and recouping the investment through future earnings a tougher task, gap years are no longer the preserve of privately educated rich kids. These days four-fifths of those taking a

year off come from state schools.

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Recycling

Cleaning up the act

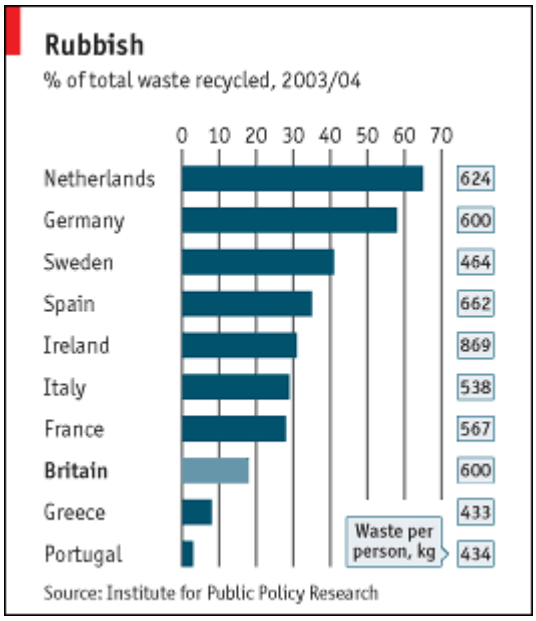
Aug 31st 2006
From The Economist print edition

Charging for household waste is a good idea

ANOTHER row about privacy is brewing on the letters pages of Britain's newspapers. This time the object of the writers' ire is not the plethora of closed-circuit TV cameras that survey the streets, or the government's expensive ideas for a national ID card. Instead, the furore concerns plans by several local authorities to use microchipped wheelie bins tied to specific addresses. High-tech dust lorries will automatically weigh the bins and read the chips, allowing binmen to figure out exactly how much each household is throwing away—and charge them accordingly. That will replace the current flat charge incorporated into council tax.

Economically, the idea is sound: flat-rate charges encourage waste. Evidence from the water industry suggests that people respond to price incentives, with water usage falling by about 10% in metred households. Forcing people to pay for their rubbish should mean that they generate less of it.

But the change is also motivated by the need to placate the European Union, which wants to increase recycling. By 2010 landfill disposal is meant to be 25% lower than it was in 1995; by 2020, 65%. Local authorities that miss these targets will be fined £150 for each surplus tonne of buried rubbish. Given Britain's woeful record on recycling (see chart), that could spell big fines for cash-strapped councils. The hope in town halls is that, by charging households for each bag of unrecycled rubbish, they can bring recycling rates up to European levels.



Indeed, continentals might be surprised at all the controversy. Charging by weight is common in many European countries, says Julie Hill of the Green Alliance, which, together with the Institute for Public Policy Research, a think-tank, is pondering how to improve Britain's record. Many offer fiscal carrots as well as sticks—paying people to return bottles, for example. She blames British apathy on lack of leadership rather than on inherent slovenliness: “We haven't taken waste seriously as a political issue,” she says. “A lot of what needs to be done has to come from central government.”

Still, the evidence from the few policies that have been tried is encouraging: the government says subsidies for councils and increases in landfill tax (levied on businesses) contributed to a three-fold rise in recycling since 1996. And it seems keen on this latest idea, too. Sir Michael Lyons, an academic who is reviewing local-government finance, has praised the idea, and David Miliband, the environment secretary, made encouraging noises at a conference in July.

Not everyone is convinced that computerised rubbish bins are the answer. Andrew Pelling, a Conservative MP, is particularly damning: “I don't think even the Soviet Union made such an intrusion into people's personal lives,” he told the *Daily Mail*. Despite such criticism, it seems easy to reconcile the civil libertarians with the greens. If councils charge only for unrecycled rubbish, the best way to avoid Big Brother will be to recycle everything you buy.

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Europe's carmakers

Fields of cars under gathering clouds

Aug 31st 2006
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AFP

It is not just America's car giants that are in trouble. So are those in Europe

EVER since Europe's big car companies—Volkswagen, Renault and PSA Peugeot Citroën—put their houses in order a decade ago and started making money, their biggest worries have been sluggish demand and ever-tightening rules on emissions laid down by European regulators. Now both fears are proving justified. This week Brussels threatened to get tough as it becomes clear that the industry will fail to meet a voluntary 25% cut in carbon-dioxide emissions promised by 2008. At the same time, the business climate has taken a turn for the worse and profits are collapsing. Only Fiat, coming round after a near-death experience, is enjoying an exhilarating recovery, largely due to the success of the Punto, a small car that has become a big hit for the Italian firm.

But in France and Germany the big carmakers are in trouble. The strength of the euro is eating into profits on German car exports to America and bloated labour costs at Volkswagen's factories are squeezing margins on European sales. The French pair, Peugeot and Renault, have been hit by tepid sales, ageing product lines and rising raw-material prices. And they now have to cope with serious competition from Toyota, which is taking a growing share of the European market since starting production in France.

Renault's operating margins in its core car business (excluding contributions from its 44% stake in Nissan and its stake in Volvo trucks) fell alarmingly in the first six months of this year to 1.6% of sales, compared with 3.3% a year earlier. Although its bottom-of-the-range Logan, made in Romania by its Dacia subsidiary, is repeating the success the company scored with its Mégane Scenic and Clio models, Renault has had a flop with the Modus, a compact family car with a high roof and a short body. Carlos Ghosn, Renault's boss, maintains there is nothing wrong with the car—his wife likes hers—but the company has sold only half as many as expected.

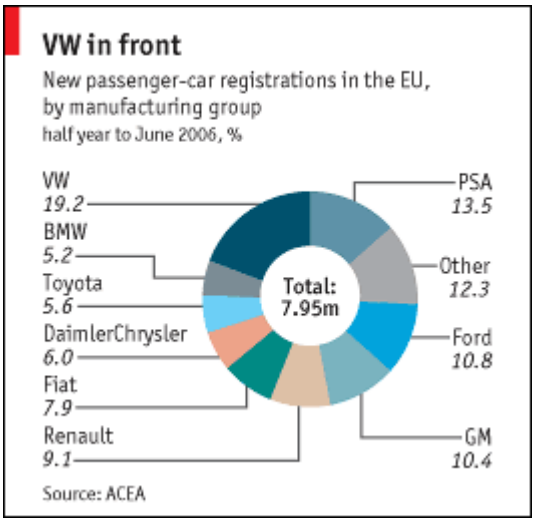
Mr Ghosn's recovery plan for Renault involves 26 new models over four years and a push into luxury cars—an area where Renault has produced a string of eccentric duds in recent years. If he cannot accelerate out of Renault's problems, he may need to cut capacity, which will be difficult, given that the French state owns 15% of the company and the government is terrified of taking on powerful unions. Mr Ghosn's reputation, after his legendary turnaround at Nissan, encourages optimists to think that he should not find it too hard to restore Renault to peak form. Yet he has plenty to distract him: as well as running Renault and Nissan, he is spending time exploring tie-ups with General Motors or Ford in North America.

Peugeot's problems are similar to Renault's. Many of its models also look long in the tooth, which largely explains the 46% drop in operating profits in the first half of this year, compared with the same period in 2005. But analysts expect Peugeot to bounce back over the next couple of years. It is about to renew half of its models and had the foresight to begin low-cost production in eastern Europe, with a factory in Slovakia and another, shared with Toyota, in the Czech Republic.

Perhaps the darkest clouds are those gathering over the European market leader, Volkswagen. Outwardly, it looks as though the VW group is going from strength to strength. It has just increased its share of the market to 19.2%, half as much again as the number two, Peugeot. But VW is trying to cut labour costs by getting its German workers to work 35 hours for the same pay as they earn today for 28. Talks with the unions are about to begin. Earlier this year the company said it needed to cut 20,000 jobs in its German factories to improve productivity, despite earlier promises not to shed workers.

The pain of its high labour costs is felt most keenly in America, where VW lost nearly $1 billion last year. The cars it sells in America are made either in Germany, with high costs further bloated by the euro/dollar exchange rate, or in Mexico. Workers at its factory there are well aware of the bargaining power this gives them and have been pressing the company to give them wage rises well above local inflation. Making matters worse, VW has problems in Brazil, where a combination of ancient production facilities and a high real are hurting exports to other South American markets.

Despite such worries VW's operating profit looks impressive, rising by 56% to €2 billion in the first half of this year compared with a year earlier. Yet this performance is largely due to Audi, the burgeoning luxury wing of the VW group. Adam Jonas, chief European motors analyst at Morgan Stanley, an investment bank, reckons that Audi, which retains a separate listing despite being more than 99% owned by VW, is worth €23 billion, more than the €17.6 billion value of VW shares. He reckons that VW's operating margins, even without the American losses, are barely 2%. That compares with 5.3% at Audi, which is clawing its way up to join the elevated ranks of Mercedes and BMW. Under the leadership of Martin Winterkorn, Audi is embarking on ambitious expansion plans to increase production from just over 800,000 cars a year to around 1.2m within four years.



The contrast between VW's troubles and Audi's success could have wider implications. Ferdinand Piëch, a former VW chief executive and now chairman of the supervisory board, makes no secret of his desire to unseat Bernd Pischetsrieder, his successor. Mr Piëch courts the ten union and employee representatives on that board, knowing they dislike VW's wage cuts and job-reduction plans. He is in a powerful position, since he and his family are the biggest shareholders in the Porsche group, which in turn owns 21.2% of VW, ahead of the second-biggest shareholder, the government of Lower Saxony, with 20.8%. In August Porsche's boss, Wendelin Wiedeking, a protégé of Mr Piëch, called for the repeal of the special law that stops any shareholder having more than 20% of VW votes. This is widely seen as another sign that Mr Piëch wants the Porsche clan to take over running the whole VW group, installing either Mr Wiedeking or Mr Winterkorn as its boss.

Whether this would improve the company's lot is difficult to say. After all, VW's main problems—high costs in Germany, and a failure to exploit a promising position only five years ago in North America—developed on Mr Piëch's watch. Big investors, notably in America, are losing patience with VW's complicated corporate governance. Europe's biggest car group could be heading for a crash.

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Telecoms in South Africa

Better late than never

Aug 31st 2006
From The Economist print edition

The belated launch of the "second national operator" should boost competition

YEARS overdue and after a tortuous labour, South Africa finally gave birth this week to its first competitive fixed-line telecoms operator. The idea for the "second national operator" (SNO)—its new brand name had not been announced as *The Economist* went to press—dates back to 2001, when the government proposed the establishment of a rival to Telkom, the monopoly fixed-line operator. The launch was delayed for years by a complicated bidding process that divided up the SNO's licence between several companies and by spats between prospective shareholders and the government. As a result, the impact of the SNO may now be less than dramatic—because other new telecoms companies and technologies have emerged in the meantime.

In particular, the rise of mobile phones, voice-over-internet-protocol (VoIP) services and wireless broadband mean that competition has seeped into the South African telecoms market, even without the SNO. VoIP was deregulated last year, prompting a small number of firms to begin offering cheaper calls, primarily to businesses. And several service providers, using a number of different technologies, have sprung up offering wireless alternatives to Telkom's costly fixed-line broadband service, which is expensive by European standards, let alone African ones.

"We are probably one of the few countries in the world with such a diversity of technologies," says Thami Mtshali, the boss of Wireless Business Solutions (WBS), one of the larger wireless-broadband providers. Its service is based on a technology called iBurst, developed by Arraycomm, an American firm. Sentech, a rival operator, offers a similar service using technology from IPwireless. Meanwhile South Africa's mobile operators, Vodacom and MTN, have been pushing a "third generation" (3G) mobile technology, called HSDPA, to deliver wireless broadband to laptops. Between them, they had signed up around 70,000 subscribers by July. Even some municipalities are rolling out wireless services as an alternative to Telkom. The town of Knysna offers voice and data services in conjunction with UniNet, a Wi-Fi provider. BMI-T, a market-research firm, predicts that there will be around 400,000 broadband connections—both fixed-line and various forms of wireless—in South Africa by the end of the year.

So the SNO is a waste of time, then? Not at all. Service providers and businesses need access to long-haul network infrastructure and connectivity to the outside world, which have hitherto been available only from Telkom—and at high prices. Storm, a South African firm that provides telecoms services to businesses, claims that some services cost 30 times as much as in liberalised markets. The arrival of the SNO should mean greater competition in cities and on international routes.

That is because the SNO will start its life owning networks in several cities and its largest shareholder, VSNL, an Indian operator that is a subsidiary of the Tata Group, will give it access to international networks. Even so, just how much competitive pressure the SNO will be able to apply to Telkom is unclear. Analysts predict that it could win 20% of the market and Telkom is already cutting its prices in response. But under-funding means that the regulator, ICASA, is ill equipped to enforce rules that could stimulate competition. And critics contend that a fully competitive market would be better at reducing prices than the government's "managed liberalisation" strategy, in which it micromanages the industry's structure. (Its newest plan is to set up a nationwide backbone operator.)

Telecoms monopolies abound elsewhere in Africa, even though some governments (as in Botswana and Nigeria) are privatising their incumbents and others (as in Uganda) are ending duopolies and opening the market to competition. Mobile phones are proliferating, but many countries still permit only one or two mobile operators. Tellingly, two countries suffering the greatest political turmoil, Congo and Somalia, also boast the most competitive markets, observes Ewan Sutherland, an independent telecoms analyst. In Somalia, he notes, "there's no government and no regulator to get in the way."

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Internet video

The trouble with YouTube

Aug 31st 2006 | SAN FRANCISCO
From The Economist print edition

It attracts a lot of viewers, but can "user-generated" video make money?

"STARBUCKS has comfy chairs, but they don't charge people for sitting in them," says Tom McInerney, the boss and co-founder of Guba, an internet-video company. Instead, he explains, Starbucks provides a comfortable environment, at considerable expense, so that people will buy overpriced coffee. That, in essence, is the business model being pursued by websites that host "user-generated content" such as personal blogs, photographs and today's craze, amateur videos, which can be uploaded and watched on sites such as YouTube, Google Video, MySpace, Guba, Veoh and Metacafe. By offering a setting for free interaction, such sites provide the online equivalent of comfy chairs. The trouble is that, so far, there is no equivalent of the overpriced coffee that brings in the money and pays the bills.

AP

Head and shoulders above the rest, for now

That is why people like Chad Hurley and Steven Chen (pictured), the co-founders of YouTube, the clear leader of the pack by audience size, are casting around for a business model. Aware that inserting advertisements at the beginning of video clips, as some sites do, is annoying and risks driving away YouTube's users, Mr Hurley and Mr Chen have announced two experiments with advertising, with the promise of more to come. One idea is for "brand channels" in which corporate customers create pages for their own promotional clips. Warner Brothers Records, a music label, led the way, setting up a page to promote a new album by Paris Hilton. The second experiment is "participatory video ads", whereby advertisements can be uploaded and then rated, shared and tagged just like amateur clips. This "encourages engagement and participation," the company declares.

Even as advertisers evaluate these new ideas, however, YouTube and the other video-sharing sites face other difficulties. For one thing, they are in a no-man's land of copyright law: they promise to pull pirated content from their sites when asked to do so, but it is only a matter of time before one of them is hit with a big lawsuit. Then there are the costs of running such a site—video requires a lot of bandwidth and storage. A rival estimates that YouTube is losing more than $500,000 a month.

Putting paid-for advertisements alongside amateur video clips, perhaps based on keywords or tags, poses another problem. "How do you know the guy in a video doesn't make a racial slur?" asks Mr McInerney. Many firms will be cautious about letting an automatic system—such as, say, Google's AdSense—place their ads next to user-generated clips of unknown provenance and with potentially embarrassing contents. (Even so, Guba is testing AdSense for Video, which has not yet been officially launched.)

For its part, Guba is betting on a combination of advertising plus the sale and rental of commercial video material. Its site offers both free amateur videos and paid-for content, including films from Sony and Warner Brothers. When Guba cut its prices last week, allowing new films to be downloaded for $9.99 and older ones for $4.99, its sales jumped tenfold. Google Video also allows content owners to charge for video. This suggests that internet-video sites are on a collision course with DVD-rental outfits, such as Netflix, which are moving towards the delivery of films via the internet, rather than as discs sent through the post.

That, in turn, highlights another business model for the 200-odd internet-video sites. During the previous internet bubble, they would have rushed to list their shares as fast as they could; this time around, many will try to be bought by media conglomerates instead. Last week Sony, which has a large film studio and lots of video to promote, bought Grouper, a small video-sharing site, for $65m. And News Corporation, Rupert Murdoch's media conglomerate, is turning MySpace, its popular social-networking site, into a challenger to YouTube. Little wonder then that the founders of YouTube, Guba and other independent video sites go to great lengths to be quoted saying respectful things about other media moguls.

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Japan's suitcase boom

Leaders of the pack

Aug 31st 2006 | TOKYO
From The Economist print edition

Why sales of suitcases are soaring in Japan

“OLD suitcases for new.” That was how Ace, one of Japan's top suitcase-makers, promoted its new suitcases this spring. Its sales this year have almost tripled compared with 2005, part of a boom that has the industry carting money to the bank by the trunkful. Most suitcase-makers are unlisted, so numbers are hard to come by, but some reports suggest a 50% jump in suitcase sales this year and those in the trade put the figure even higher. Ace did particularly well from its three-month promotion: it arranged for free pick-up and disposal of old suitcases, since recent changes to Japan's recycling laws do not allow suitcases to be thrown away with other rubbish.

Why the sudden boom? Partly, it is technology. Local manufacturers, which account for around two-thirds of the market, have launched new designs made of polycarbonate resin, which is also used to make bullet-proof helmets and shields. Since the material is tough, it can be very thin, making suitcases some 30% lighter than traditional ones. Sunco, a medium-sized maker, says sales of such suitcases are replacing old-fashioned cases and at higher prices.

It is also a sign of Japan's economic revival. After a decade of worrying at home, the Japanese are taking to foreign travel again. The Japan Travel Bureau, a big travel agency, says it has been a record summer for overseas holidays. That is one reason to buy new cases fitted with locks approved by America's Transportation Security Administration, which can be opened and relocked by security screeners in America. This helps to ease fears of theft, since people travelling to America with anything else are told to leave their bags unlocked, says Toshifumi Namba of Ace. Even for those holidaying within Japan, new, wider escalators at big railway stations make it easier to travel with larger bags, which has encouraged people to trade up.

Almost all suitcases are now made in China (though Ace still makes them at its plant in Hokkaido, an island in northern Japan). Even so, many suitcase firms are still clustered in Taito ward, home to the Senso temple, a tourist hot-spot in Tokyo. The Tokyo Suitcase Association says more than two-thirds of its members are based there. This dates back to the Edo period, when Taito was famous for its leather craftsmen, who used to make harnesses for horses. The neighbouring Sumida ward was (and still is) home to many leather-workers, and the Sumida river that divides the two wards provided an easy way to transport leather goods. Of course, materials and transport have long since changed. Ace's bestselling colour this year is a bright red, which helps polycarbonate-resin suitcases stand out on airport carousels.

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European utilities

Power politics

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Will Spain retreat and allow a German takeover of its biggest electricity firm?

THE takeover of Endesa, Spain's biggest electricity firm, by E.ON, a German utility, is well on its way, declared Angela Merkel, the German chancellor, at a press conference in Berlin last week. This might be just wishful thinking. But it is more likely to mean that Ms Merkel has some inkling that the Spanish government is preparing to back down over its obstinate obstruction of the German bid.

In spite of increasing pressure from the European Union's competition division, José Luis Zapatero's government has yet to give any public indication of its willingness to compromise. On August 25th EU regulators warned the Spanish government that the restrictions it has imposed on E.ON's bid for Endesa are illegal. The Spaniards reacted with defiance. “The government will continue to defend its position, because we believe we are right,” said María Teresa Fernández de la Vega, Mr Zapatero's deputy.

Reuters

Under new management

In preparation for the full liberalisation of Europe's energy markets next July, the government thinks Spain needs a national energy champion that can rival the gigawatts of Electricité de France and Germany's RWE. So it is backing Gas Natural, a Spanish gas company based in Barcelona, the Catalan capital, which launched a hostile bid for Endesa last September. This also suits Mr Zapatero: the Catalan party is a pivotal member of his governing coalition and José Montilla, the industry minister who oversees the energy business, is Catalan. Mr Montilla is about to leave his post to run for regional elections in Catalonia and Mr Zapatero announced on August 29th that he would be replaced by Joan Clos, another Catalan, who is mayor of Barcelona.

Since E.ON stepped in at the end of February with a bigger and better offer, the government has manoeuvred to frustrate it. E.ON is offering €29.1 billion ($34.7 billion) for Endesa—the biggest takeover bid in the history of the utilities industry—compared with Gas Natural's €22.5 billion cash-and-stock offer. After its own antitrust authority and the EU approved E.ON's proposal in April, the government's obstructionism intensified. Eager to thwart the deal, the government has invested special powers in CNE, which is Spain's energy regulator and is controlled by a board that is close to the government.

At the end of July the CNE imposed 19 conditions on E.ON's bid for Endesa, such as a commitment to invest in gas-transmission networks and an obligation to keep Endesa properly capitalised. But three of the CNE's demands are not so reasonable. First, E.ON would have to sell the only nuclear-power plant wholly owned by Endesa. Next, it would also have to sell all of Endesa's coal-powered plants, because Spanish coal is subsidised and the government is worried that the Germans would use cheaper imports. Third, Endesa's operations on the Balearic and Canary Islands, and in northern Africa, must be divested. This would, in effect, amount to breaking up Endesa.

Neither E.ON nor Endesa wants that. Both companies appealed against the conditions at the industry ministry. But since the industry minister is likely to side with the CNE, they plan to take their case to a commercial court or the Supreme Court—unless the government relents under pressure from the EU. The deadline for the government's reply to last week's warning was originally September 4th, but has now been extended to September 13th, after Madrid asked for a postponement. If its reply is not satisfactory, the EU will require the Spanish government to withdraw its conditions, and if the government refuses to do so, the EU will take the case to the European Court of Justice in Luxembourg, says Jonathan Todd, a

spokesman for the competition commissioner.

Insiders think the government will try to avoid long-running and costly litigation. But it will probably wait until after the regional elections in Catalonia on November 1st before watering down or eliminating any of its 19 conditions. Mr Zapatero has plenty on his plate, such as tackling immigration and dealing with ETA, the Basque terrorist group. He does not want to poison relations with his European counterparts. Perhaps at their recent get-together in Germany he gave Ms Merkel a hint of a forthcoming climbdown. After all, a physicist by training, she tends to stick to the facts.

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Face value

The baby-food king

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From The Economist print edition

Can Jan Bennink take an even bigger bite out of the speciality-nutrition market?

"BABY food is the laziest food market in the world," says Jan Bennink. "It has very high customer loyalty"—mum's, that is, not baby's—"practically no own-labels and no price pressure." In Europe, the traditional stronghold of Royal Numico, a Dutch firm run by Mr Bennink since May 2002, laziness has lately been combined with a predicted long-term market decline, as falling birth rates mean fewer babies are around to eat the stuff. Or so, at least, went the conventional wisdom that in the late 1990s convinced Numico's previous boss, Hans van der Wielen, to diversify into the vitamin business. That disastrous acquisition spree cost him his job and gave Mr Bennink his chance to prove the conventional wisdom wrong.

It was the idea of running the newly acquired General Nutrition, an American retail vitamins chain, that first tempted Mr Bennink to join Numico from Danone, a French food giant, where he ran the dairy-foods business. A gradual transition to the top job was planned: Mr Bennink was promised a year off to travel. In the end, when Mr van der Wielen left abruptly, "I got a fortnight in Fiji" before taking over, says the youthful-looking 49-year-old. He soon saw that Numico was in dire peril. The acquisitions had run up large debts and discounters had flooded the vitamin market. Mr Bennink decided to sell the vitamins and supplements arm. Numico, founded in 1896 by Martinus van der Hagen, a Dutch inventor, after he won the exclusive right to make infant formula out of cow's milk, would return to its roots.

At first, this strategy was greeted with scepticism, especially from investors who also believed the conventional wisdom. Several quarters of missed profit targets did nothing to help Mr Bennink's case. By February 2003, as he prepared to sell General Nutrition at a loss of more than $1.75 billion, Numico's stockmarket value was $842m, down by over 80% since he had taken charge. That was to prove a low-point, however, from which the firm has since rebounded. Today its value is about $9 billion.

Selling the vitamins business enabled Mr Bennink to slash Numico's debt and reinvest in the baby-foods division, which had been starved of cash. He replaced 70% of the top managers and shook up the firm's corporate governance, recruiting a new board and scrapping its anti-takeover poison pills. The supply chain was overhauled and working capital reduced. Mr Bennink insisted that Numico should be only in markets with both high growth and high margins. So he sold low-margin baby-foods operations in Mexico, India and South Africa, while buying businesses in markets such as Italy and China, which promise to grow more strongly. Above all, Mr Bennink invested in innovation, an unusual move in the stodgy baby-food market.

Mr Bennink took his lead from France, where his old firm, Danone, and its main rival, Nestlé, had found novel ways to grow. They put more effort into advertising the health benefits of baby foods. They innovated, introducing more consumer-friendly packaging and bottles and developing the "toddler milks" market for children aged one to three. And they convinced retailers that, properly marketed, baby food could draw high-spending younger adults into their stores. As a result, the French market has been growing by more than 8% a year for the best part of a decade, and French babies now consume twice as much baby food per head as their peers in Britain—and 40% more than Americans.

Danone and Nestlé would typically now be cleaning up around the world by exporting these ideas. But

baby foods are unusual. “People don't switch brands in baby food unless their baby is not well. Brand loyalty is passed on from mother to daughter; price is never an issue,” says Mr Bennink. Even giants such as Nestlé struggle to enter new markets. With the luxury of incumbency, Mr Bennink could deploy the successful French strategies in Numico's best markets. In Britain, where its brands include Cow & Gate, Numico has already increased its annual growth rate from 2% to 8%, and its market share from 30% to 38%. Mr Bennink now aims to win an ever bigger “share of stomach” of babies everywhere. There is plenty of room for growth: even in France, where specialist baby food is so popular, it accounts for only one-third of what babies eat.

Not just for tiny tots

Mr Bennink is also shaking up another high-margin speciality: food for hospital patients. Here, demographics are unquestionably in his favour: ageing populations mean demand should soar. This market has traditionally been dominated by a “pharma mentality”, says Mr Bennink. “People think only of cures, rather than delivery—we bring a consumer perspective.” Numico's innovations include replacing inconvenient cardboard cartons with easily sippable bottles and developing specialist foods to help with particular illnesses. Smaller, more concentrated helpings are designed to help cancer patients cope with shorter periods of more intense chemotherapy, by reducing their typical sharp weight loss. A food intended to improve brain function in Alzheimer's patients is in clinical trials.

Compared with diversified rivals such as food giants Danone, Nestlé and Heinz, and drugs firms such as Novartis and Wyeth, Numico has the advantage of focus. Mr Bennink has no interest in entering other specialities, such as dieting: “too faddish,” he says dismissively. His biggest worry is probably Numico's lack of clout in America. One possibility is that further consolidation will lead to pharmaceuticals companies selling non-core assets. That might even allow Mr Bennink to buy Gerber, America's leading baby-food brand, from Novartis. Alternatively, some big, deal-hungry multinational might consider Numico to be irresistibly tasty. “Nothing's impossible,” concedes Mr Bennink, before pointing out that—unlike when he first took over—Numico would be an expensive mouthful.

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Synthetic biology

Life 2.0

Aug 31st 2006 | BERKELEY, CAMBRIDGE, MASSACHUSETTS, AND ROCKVILLE, MARYLAND
From The Economist print edition

The new science of synthetic biology is poised between hype and hope. But its time will soon come

Get article background

IN 1965 few people outside Silicon Valley had heard of Gordon Moore. For that matter, no one at all had heard of Silicon Valley. The name did not exist and the orchards of Santa Clara county still brought forth apples, not Macintoshes. But Mr Moore could already discern the outlines. For 1965 was the year when he published the paper that gave birth to his famous “law” that the power of computers, as measured by the number of transistors that could be fitted on a silicon chip, would double every 18 months or so.

Four decades later, equally few people have heard of Rob Carlson. Dr Carlson is a researcher at the University of Washington, and some graphs of the growing efficiency of DNA synthesis that he drew a few years ago look suspiciously like the biological equivalent of Moore's law. By the end of the decade their practical upshot will, if they continue to hold true, be the power to synthesise a string of DNA the size of a human genome in a day.

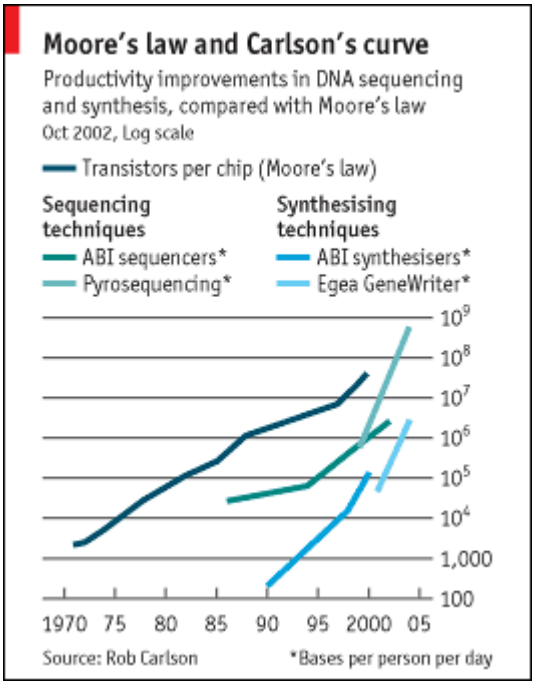
At the moment, what passes for genetic engineering is mere pottering. It means moving genes one at a time from species to species so that bacteria can produce human proteins that are useful as drugs, and crops can produce bacterial proteins that are useful as insecticides. True engineering would involve more radical redesigns. But the Carlson curve (Dr Carlson disavows the name, but that may not stop it from sticking) is making that possible.

In the short run such engineering means assembling genes from different organisms to create new metabolic pathways or even new organisms. In the long run it might involve re-writing the genetic code altogether, to create things that are beyond the range of existing biology. These are enterprises far more worthy of the name of genetic engineering than today's tinkering. But since that name is taken, the field's pioneers have had to come up with a new one. They have dubbed their fledgling discipline “synthetic biology”.

Truly intelligent design

One of synthetic biology's most radical spirits is Drew Endy. Dr Endy, who works at the Massachusetts Institute of Technology, came to the subject from engineering, not biology. As an engineer, he can recognise a kludge when he sees one. And life, in his opinion, is a kludge.

No intelligent designer would have put the genomes of living organisms together in the way that evolution has. Some parts overlap, meaning that they cannot change jobs independently of one another. Others have lost their function but have not been removed, so they simply clutter things up. And there is no sense of organisation or hierarchy. That is because, unlike an engineer, evolution cannot go back to the drawing board, it can merely play with what already exists. Biologists, who seek merely to understand how life works, accept this. Engineers such as Dr Endy, who wish to change the way it works, do not. They want to start again.



So Dr Endy has developed an idea invented by Tom Knight, one of his colleagues at MIT. Dr Knight calls the idea “BioBricks”. His inspiration was a children's toy called Lego. What makes Lego successful is that any part can attach to any other via a universal connector. A BioBrick is a strand of DNA that has universal connectors at each end. BioBricks can thus be linked together to form higher-level components and also joined into the DNA of a cell so that they can control its activity.

Dr Endy likes BioBricks because they promise the synthetic biologist the standardised set of parts that has been one of the advantages enjoyed by the electronic engineers behind Moore's law. If an engineer wants a particular component for a job, he can go to a catalogue, find a widget with the right parameters and order it from a supplier. He does not have to design it himself. He does not even have to know how it works. Dr Endy thinks BioBricks can put biologists in the same position.

The DNA of a BioBrick contains a combination of genes that acts as a standardised component. When translated into protein in a cell, it makes that cell do something—and that something is often more than just “make more of protein X”. In particular, Dr Endy is interested in switches and control systems that regulate other genes. Such switches are the basis of electronics and he hopes they may one day become the basis of an industrialised synthetic biology.

At the moment, BioBricks, like Lego, are still a toy. They have been used for proof-of-principle studies such as taking photographs with films made of modified bacteria, but not yet for serious applications. But there are a lot of them around—many in the public domain at MIT's Registry of Standard Biological Parts. Such “open wetware” is one reason for the emergence of biohacking (see article).

Whether BioBricks will come to dominate the field remains to be seen. One difficulty they face is the cussed tendency of biological things to evolve. An electronic component, once designed, can be turned out reliably in a factory. BioBricks are bred, rather than made, and that introduces scope for error. Meanwhile, other researchers are content to work with things that more closely resemble natural components, although they still assemble them in unconventional ways.

A new synthesis

One of the leading proponents of this method is Jay Keasling, of the University of California, Berkeley, who also believes that synthetic biology will ultimately need standard, well-characterised parts if it is to thrive. But he is trying to get there via a practical project, rather than by generating lots of components and waiting for others to think of what to do with them.

Dr Keasling's project is to do biologically what no chemist has yet managed to accomplish—to synthesise an antimalarial drug called artemisinin cheaply. At the moment, artemisinin is a herbal remedy. It is extracted from *Artemisia annua*, a type of wormwood, and the best source is in China. Making artemisinin by standard chemistry requires so many steps that it is impractical. So Dr Keasling persuaded

the Gates Foundation to back his idea for doing the job using synthetic biology.

For this, he has built a metabolic pathway in yeast cells that synthesises a chemical called artemisinic acid which chemists can easily convert into artemisinin. Some of the genes to do this have come from *Artemisia*, but others have been created from other sources.

Dr Keasling's project is not the only one to lay down artificial metabolic pathways. One goal of synthetic biology is to make what is known as cellulosic ethanol. At the moment, ethanol—whether for wine, beer or fuel—is made by fermenting sugar or starch. But even in crops such as sugar cane and maize, which have been bred for their high yields, a lot of the plant is wasted. Although yeast cannot digest cellulose or lignin, the molecules that form a plant's skeleton, some bacteria and other species of fungi are able to do the job. Identifying the genes for the enzymes that do this, modifying them and assembling them into new pathways would produce systems that could digest the whole plant and turn it into ethanol. Nancy Ho, of Purdue University, in Indiana, has already worked out a way to enable yeast cells to ferment the sugars produced by breaking down cellulose—which natural yeast cannot do.

This is important stuff. Cellulosic ethanol is the great hope of many environmentalists since its carbon, unlike that in fossil fuels, comes from the atmosphere and thus cannot make a net contribution to global warming when it returns there.

The ultimate proof of the success of synthetic biology, though, would be not merely an artificial metabolic pathway, but an artificial organism. That is the goal of Craig Venter. Dr Venter, the man who first sequenced the entire genome of a living creature (a bacterium) and then went on to run a private-enterprise rival to the publicly funded Human Genome Project, has re-invented himself again. This time he is synthesising genomes, rather than analysing them. Three years ago he made the first viable synthetic virus from off-the-shelf chemicals. (It is a parasite of bacteria, not humans.) Now he has a bacterial genome in his sights.

To make the task easier, Dr Venter is first creating what he and Hamilton Smith, his collaborator at the Venter Institute in Rockville, Maryland, call the minimal genome. This is a stripped-down bacterial genome that contains the smallest set of genes consistent with life in the cushy environment of a laboratory. Such a genome would have several advantages for synthetic biologists. First, being small, it would be easier to make. Second, it would not survive in the big, bad world outside the laboratory, should it chance to escape. Third, it would not dissipate its biochemical effort on non-essential tasks. That means it could be used as a platform on which to bolt commercially useful pathways.

According to Dr Venter, the raw materials for those pathways are abundant. As he observes, half the mass of living organisms on the planet is made of bacteria and these bacteria are divided into zillions of species with countless unidentified genes. For the past couple of years he has been sampling the oceans and collecting bacterial genes. He has identified about 6m.

Among them are, for example, 20,000 genes for hydrogen-metabolising proteins. That is of particular interest, since Dr Venter sees synthetic biology as a source of new energy-generating technologies—and he has the backing of America's Department of Energy to prove the point. He has also found numerous genes for versions of rhodopsin. In vertebrates this protein is found in retinal cells, where it transduces the energy of light into a nerve signal to the brain. What it is doing in so many bacteria is not known, though one possibility is signalling how deep they are in the ocean as a consequence of how dark it is. Whatever the cause, the energy conversion that rhodopsin brings about is also of interest.

It's life, Jim, but not as we know it

Dr Venter reckons he will be able to synthesise a working bacterial genome from scratch within two years. More complex genomes, of the sort that make plants, animals and fungi, will take longer. But they, he thinks, should be possible within a decade. Even this definitive erasure of the distinction between the living and non-living worlds is not, however, the most radical idea in synthetic biology. Some people want to go beyond the toolkit that evolution has provided and create biological systems that work with a chemistry that is not found in natural living things.

Biology's operating system relies on two sorts of molecule: nucleic acids and amino acids. Nucleic acids (DNA and its cousin, RNA) act as information stores. The information they store is how to assemble amino acids into proteins, which are chains of linked amino acids. Proteins then go on to do the work of sustaining life. They manufacture other sorts of biological molecules, such as fats and sugars. They

process energy. They provide structural support for cells.

One of the recurrent principles of evolution is “if it ain't broke, don't fix it”. That is why the kludges Dr Endy is trying to eliminate have endured across the millennia. Once the nucleic acid-amino acid operating system came into existence it could never be “fixed” into anything else by evolution, because the immediate consequences would have been so serious. But that does not mean it cannot be changed by an intelligent designer, and a number of such people are looking into how this might be done.

One obvious improvement would be to increase the number of amino acids that can be assembled into proteins. At the moment only 20 are used routinely in biology, but chemists can make thousands of others. Proteins containing those “non-biological” amino acids would have novel properties, and some of those properties might be useful. That, at least, is the thinking behind the attempt by Lei Wang, of the Salk Institute in La Jolla, California, to extend the amino-acid parts set. Dr Wang's starting point is the redundancy of the genetic code used by nucleic acids. This code is spelled out in the genetic “letters” A, C, G and T, which correspond to chemical sub-units of nucleic acids. The letters are grouped into three-letter “words” known as codons, meaning that there are 64 of them. All but three of the codons correspond to particular amino acids, and the order of the codons in the nucleic acid corresponds to the order of the amino acids in the protein. The remaining three are signals that the protein is complete.

But, with more codons than amino acids, many amino acids have more than one codon to describe them. There is also a superfluity of stop signals. Dr Wang has managed to reassign one of the stop codons in *E. coli*, the bacterial workhorse of geneticists, to recognise an unnatural amino acid. This can now be incorporated into proteins made by the bacterium.

Peter Carr of MIT and Farren Isaacs of Harvard Medical School have an even more ambitious plan. They intend to recode *E. coli* completely, eliminating the redundant codons. They have settled on one codon for each natural amino acid and one for the stop signal and plan to go through the bacterium's entire genome replacing alternative codons with their chosen ones. The idea is that the cleaned up bacterium will be more efficient. That remains to be seen; natural selection has been working on *E. coli* for a long time, so whether two intelligent designers can do a better job is questionable. But if their new bacterium is at least viable, it will have 43 codons that can be re-assigned to other tasks.

The debate evolves

Where all this will lead is anybody's guess. But synthetic biologists themselves are aware of the risks. The most obvious is that somebody, whether a malicious biohacker or a political terrorist, will do something deliberately nasty. The other risk is that something will escape accidentally.

No technology is risk free, but synthetic biology has the twist that its mistakes can breed. Today the risks are not great. As David Baltimore, the president of the California Institute of Technology, observes, “nature is a very tough critic”. Any organism modified in a laboratory is unlikely to make it in the outside world in competition with creatures toughened up by natural selection. Nevertheless, as knowledge increases, so will the risk that something truly nasty might be unleashed.

To avoid that and the opposite problem of hasty legislation to curb their activities, researchers are trying to get their retaliations in first by promoting public debate. Their historical model is the Asilomar conference of 1975, when the first biotechnologists met to agree on self-denying ordinances that went a long way towards establishing their credentials as responsible and trustworthy people. Despite initial fears, biotechnology has not, up to now, caused any serious problems.

A recent meeting of biosynthesists in Berkeley issued a discussion document; the Sloan Foundation has paid for a report, coming out soon, on the risks and social implications of synthetic biology. So far, perhaps surprisingly, the wider public has shown little interest. Perhaps it should.

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Synthetic biology

Bedroom biotech

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Like information technology before it, biotech is starting to spawn hackers

Get article background

MANY a computer business has started in a garage or a teenager's bedroom. So, though, has many a computer virus. And where computing led, biotechnology may follow. As genetic information multiplies and the cost of hardware falls, biohackers are emerging.

Biohacking is not quite yet within the range of a teenager with a Saturday job and a parental allowance, but prices are falling. Using second-hand equipment a basic home-biotechnology laboratory could probably be put together for less than $50,000. Understandably, therefore, those biotechnology hobbyists who now exist are few in number. But that looks set to change.

The hordes of biology graduates leaving university hoping to become biotechnology start-up millionaires are the most likely to be tempted by homebrewed biotechnology. They are trained scientists who, for the most part, take the same precautions at home as they would in a university or industrial laboratory. And some have had success. Agribiotics, an agricultural biotechnology firm recently sold for €20m (then $24m), grew from a business run in the basement of a family home.

Encouraged in part by such stories, biotechnology is now becoming a hobby for all sorts of people. Websites such as DNAhack.com and magazines such as *Biotech Hobbyist* serve as guides to basic biotech procedures. One biotech hobbyist claims to have created a weed resistant to Roundup, America's most popular herbicide. Others have created skin-tissue cultures that glow colourfully under ultraviolet light by splicing in a gene from a species of coral. Some just clone trees.

The science is hard, but the computer revolution showed the tendency for people to jump on the bandwagon of a new technology, no matter the intellectual difficulties. Even toymakers have noticed the trend—the Discovery DNA Explorer, suitable for those over ten years old, helps children extract and map DNA.

If the trend persists, ethical issues and definite penalties for wrongdoing will probably be taught alongside practical techniques. The excitement of playing with the latest technology is hard to tame—but like any dangerous beast, it is best approached not with fear but with caution and a plan.

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Hedge funds

Capitals of capital

Aug 31st 2006 | LONDON AND NEW YORK
From The Economist print edition

In the booming world of hedge funds, London is a growing rival to New York

FIND a table at Nobu on a Friday night (if you can) and you will notice the sleek, Michelin-starred restaurant buzzing with a snazzy crowd. The cocktail lounge is overflowing and the sushi bar is packed. Often, those dining on yellowtail tuna with jalapeño or black cod with miso include young hedge-fund managers acting as if they are at the top of their game. Which side of the Atlantic are you on? Both.

Whether in the New York area, or London's Mayfair, it is hard to miss the stamp of the hedge-fund manager, or “hedgies” as they like to be known in the trade. They are clever, well-travelled and mostly rich. They fill up restaurants and drive up the prices of everything from apartments to art wherever they cluster.

Across the world there are more than 8,000 hedge-fund managers with over $1.1 trillion in assets under management. Attracting them to any financial centre means big business. Moreover, thanks to their complex, rapid-fire trading strategies, hedge funds are increasingly punching above their considerable financial weight—some financial experts reckon they account for half the trading volume on the world's biggest exchanges.

Since the late 1940s, when an American journalist, Alfred Winslow Jones, began taking off-setting positions in shares to hedge market risk, New York City and (more recently) a swathe of leafy suburbs radiating from Greenwich, Connecticut, have been the centre of what became the hedge-fund world. This unusual in-crowd (they often seem more inclined mathematically than socially) is keeping the money flowing in Manhattan and southern Connecticut.

Hedge funds arrived in Britain much more recently, in the early 1990s. Since then London has emerged as the centre of Europe's hedge-fund management industry, handling about two-thirds of a total $325 billion in funds under management (the funds themselves are held offshore, in tax havens like the Cayman Islands).

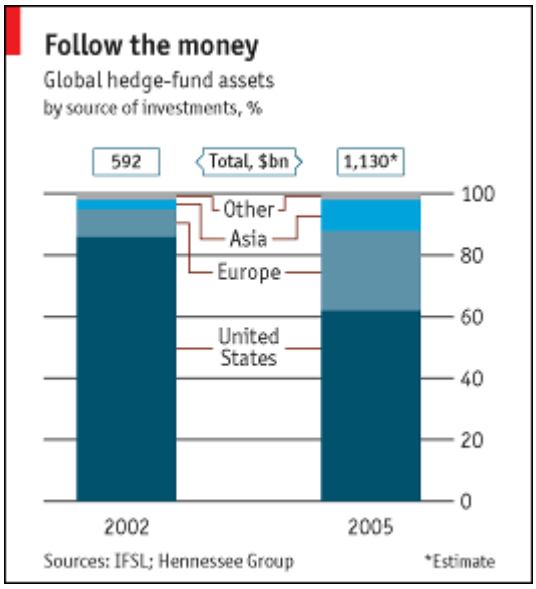
New York City remains home to roughly double the number of hedge-fund managers as London, but the two centres increasingly stand head and shoulders above the rest of the world. In 2005 Britain had the

edge in performance, returning an average of 16.15%, almost twice the return of American funds. That may be one reason why London is attracting money—and talent—at an accelerating pace. Estimates vary, but by one count Britain has about 700 hedge-fund managers today. In 2002 the Alternative Investment Management Association (AIMA), a trade group, counted only 400.

In both cities, hedge funds are contributing to a trend that is changing the face of financial services. Increasingly, talented financial professionals are abandoning big investment banks for small firms. Tim Spangler, a London-based lawyer with hedge-fund clients around the world, says banks are “fighting to keep talent in the building.” The rewards are a large part of the attraction of hedge funds, as is the lightly regulated environment. Funds like to play up the difference by offering nicer digs, too. Greenwich is a lot greener than Manhattan. In London many small hedge funds cluster in Mayfair, far west of the City and Canary Wharf where the big banks camp out.

American fund managers say they are attracted to London as a less-crowded place where they can try different trading strategies. Data from Hedge Fund Research, a consultancy, show that in the second quarter, a share-hedging strategy involving both long and short sales was the most popular in America and Britain. But American-based managers were more likely also to trade “event-driven” strategies, based on unexpected occurrences such as takeovers. British-based funds, meanwhile, were more likely to trade in emerging markets and fixed-income.

Despite the growing clout of hedge funds in Britain (at least 100 new funds have started there this year, the AIMA reckons), many of its fund managers still rely heavily on American investors for much of their funding—as they do elsewhere in the world (see chart). “The US investor side is the broadest, the deepest and the most willing to back new managers and strategies, wherever they may be”, says Mr Spangler. A recent change in America's pension laws makes it even easier for pension fund managers to go into hedge funds; already they are far more comfortable with such investments than are their British counterparts, who invest only 3% of their funds in alternative assets, such as hedge funds.



One of the more striking differences between America and Britain is regulation. In America hedge funds are not required to register; an effort by the Securities and Exchange Commission (SEC) to impose registration by February has been struck down by a federal court.

From the British perspective, America's approach looks “bipolar”, as one London fund-manager puts it. The optimistic attitude to starting up funds—virtually anyone can create a hedge fund in America almost overnight—is followed by a legal sledgehammer when things go wrong. And they have sometimes gone wrong in spectacular fashion, as at Long-Term Capital Management in 1998 and Bayou Hedge Fund Group last year. Since June 1999 the SEC has brought 97 enforcement cases against investment advisers for defrauding hedge-fund investors or using funds to defraud others.

Contrast this with the approach in Britain, where a surprising number of big hedge-fund managers criticise the American system for being too lax. In London, one says, requirements by the Financial Services Authority (FSA), the regulator, to start a hedge fund “are sufficiently burdensome to be useful”. In addition to requiring details on everything from the firm's compliance systems to its risk controls, there is an annual report on each firm (this applies to other financial firms, not just hedge funds). A group of the largest hedge funds receive closer scrutiny, including monitoring visits, from the authorities.

Yet once hedge funds are established in Britain, the regulator uses a relatively light touch based on broad principles, including protecting consumers and promoting competition. Amazingly, the FSA has fined only one hedge-fund manager thus far—and that was for just £750,000 ($1.4m). As London catches up with New York, though, this will surely change.

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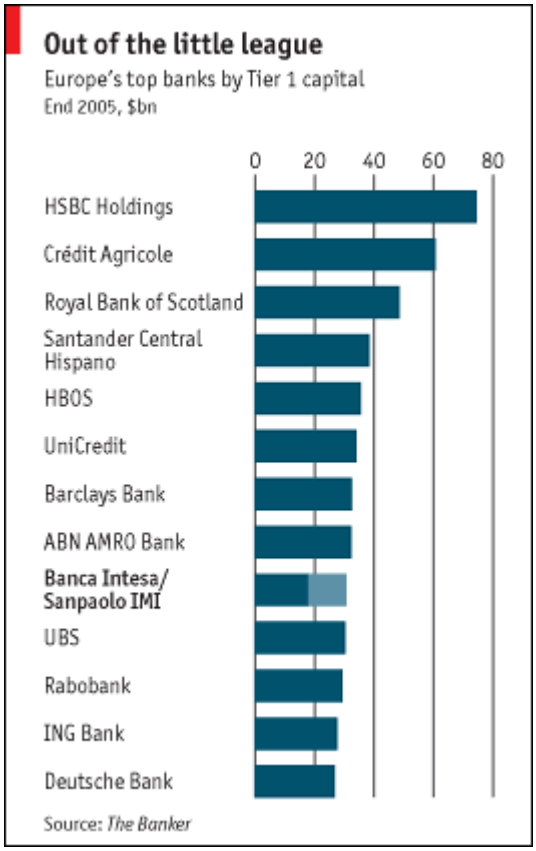
Italian bank mergers

Getting more popolari

Aug 31st 2006 | MILAN, NEW YORK AND PARIS
From The Economist print edition

Italy wins tentative applause for a large banking merger



FOR years the Italian banking system was described as a petrified forest—gloomy, immobile and rooted firmly in the past. None of the institutions within it had ever exactly been considered sleeping beauties either—they are costly for consumers, inefficient and poor lenders. But on August 26th a ray of sunlight shone through when Banca Intesa, Italy's second-biggest bank by assets, announced that it planned to merge with Turin-based Sanpaolo IMI, its next-largest rival. The aim is to create one of Europe's ten biggest banks (see chart), which, if run correctly, could give Italy the sort of financial heft it needs to stoke a sluggish economy.

Like UniCredit, the country's biggest bank, Banca Intesa and Sanpaolo IMI have done more than their counterparts to shake the banking system out of its torpor. Over time, they have grown through a series of largely successful mergers—though none shines by international standards. Last year, UniCredit landed the most unexpected coup: it entered the European big leagues after taking over Germany's HypoVereinsbank.

Yet Intesa and Sanpaolo IMI hope to catch up. If completed (they aim to do so by the end of the year), the merger would create one of Europe's biggest domestic banks. Italy would have a behemoth with some 6,000 branches and control of more than one-fifth of the retail market, much of it in the wealthier north. The new bank's stockmarket value of over €65 billion ($83 billion) would just surpass that of UniCredit. Corrado Passera, Intesa's chief executive, would take over as boss of the new bank. Many predict that Mr Passera would use the takeover of Sanpaolo IMI as a springboard for a big cross-border deal—as did Alessandro Profumo, boss of UniCredit and Mr Passera's arch rival.

Investors' reaction to the proposed deal was enthusiastic. “This was the best deal the two banks could pull off given the limited options of partners in Italy,” says Marcello Zanardo at Keefe, Bruyette & Woods, an investment bank. Italy has some 700 banks, but most of them are almost impossible to buy, or not worth buying. A few are controlled by foundations unwilling to cede control; some are *banche popolari*, mutual banks, which accord a single vote to each shareholder.

AFP

Something, at last, to write home about

Provided the merger is as much about synergies as size, it should be good for profits. According to Matteo Ramenghi, an analyst at UBS, an investment bank, previous mergers resulted in cost savings of more than 17% of the acquired bank's costs. Mr Passera has a reputation as a cost-cutter. The new bank is also planning to separate itself from some 600 overlapping branches. Most of them are likely to be sold to Crédit Agricole, Intesa's biggest shareholder, to sweeten the deal for the French bank.

Mario Draghi, appointed this year as governor of the Bank of Italy, is keen to see more consolidation to strengthen Italian banks against predators from other countries. The most obvious takeover candidates are Capitalia, a Rome-based bank, Monte dei Paschi di Siena (MPS) and Mediobanca, a Milan-based investment bank. But none would be easy: Matteo Arpe, Capitalia's boss, is keen to protect his bank's independence and likely to demand the top job in any merger talks. A foundation owns 58% of MPS. And Mediobanca is controlled by a shareholder pact that includes Capitalia and UniCredit.

The real test of the desire to unify Italy's fragmented banking sector would be the abolition of a law awarding a vote per head to shareholders of *banche popolari*, says Claudio Scardovi at Mercer Oliver Wyman, a consultancy. This makes such banks, which control about 40% of the retail market, nearly takeover proof. Banca Popolare di Milano, for instance, is in effect controlled by its large employee union, which has just 3% of the capital.

At the moment, the mutual banks can be taken over only if they wish to be. Only one, Banca Popolare Italiana (BPI), based in Lodi, northern Italy, has put itself on the block. Four banks have expressed interest.

The BPI auction and Mr Draghi's appointment as head of the central bank are the result of the scandal last year that led to the resignation of his predecessor, Antonio Fazio, amid criminal investigations and the publication of (unexpectedly entertaining) transcripts of his scheming telephone conversations. For more than a decade Mr Fazio had obstructed all foreign bids for big Italian banks and some mergers between domestic ones.

So far Mr Draghi has made a strong start. Some of the central bank's power to meddle has been reduced. France's BNP Paribas encountered no resistance to its swoop on Banca Nazionale del Lavoro in February. Another test of Mr Draghi's appetite for change would be his attitude if a foreigner bid for Capitalia, MPS or Mediobanca. All three of them are banking jewels. It is bound to be tempting to protect their *italianità*.

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Japan's economy

Adjusting the rear-view mirror

Aug 31st 2006
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Inflation is a lot lower in Japan than first thought

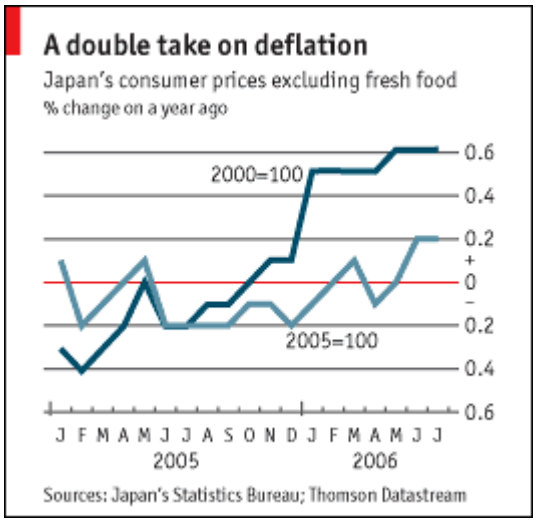
Get article background

ONE of the most glaring mistakes in the recent history of central banking stemmed from a sound response to unsound numbers. The Federal Reserve let inflation get out of hand in the 1970s, because it thought there was more slack in the economy than there turned out to be. A big revision of Japan's inflation figures last week suggests its central bankers may be making the opposite mistake.

The Bank of Japan (BoJ), along with everyone else, had been under the impression that the country escaped deflation late last year, and that consumer prices, excluding fresh food, were now rising at the heady annual rate of 0.6%. Having raised interest rates from the floor in July, the BoJ was expected to do so again this year.

Not any more. Last week, the islands' number-crunchers carried out their five-yearly overhaul of the inflation figures. The new numbers use a more recent "base year" (2005, not 2000), and track the cost of a more up-do-date basket of 584 goods. Hijiki, an edible brown seaweed, is in; "standard" rice is out; doughnuts are included, norimaki sushi tossed aside; fees for dancing school will be counted, those for dressmaking school will not.

This reshuffling of the statistician's shopping basket has rewritten recent history (see chart). Japan, it now seems, did not escape deflation definitively until July, when the core annual inflation rate reached 0.2% for only the second month in a row. As Richard Jerram, of Macquarie Research in Tokyo, puts it "price pressures today are where the BoJ thought they were six months ago." With hindsight, July's rate hike looks premature and there may not be another one this year. The currency markets, at least, do not seem to expect one: this week traders demanded more than 150 yen for a euro, the worst rate since the single currency was created.



Still, Mr Jerram finds a silver lining in this statistical cloud of confusion. The disturbing lack of inflationary pressure suggests that the economy is more productive than its doubters suggest. And the economy seems to be coping surprisingly well with real interest rates that are, thanks to lower inflation, 0.5 percentage points higher than the BoJ intended. Such optimism drew strength from unemployment's fall to 4.1% in July, resuming a downward drift. There are now 1.09 jobs for every applicant at Japan's government-run employment agencies, the highest ratio since 1992.

America's statisticians have also been unsettling its central bankers. According to revised figures released this week, the economy grew a little more quickly in the second quarter than first thought, expanding at an annual pace of 2.9%, not 2.5%.

A day earlier the Federal Reserve released the minutes of its most recent rate-setting meeting, held on August 8th. At that meeting, the central bankers decided to sit on their hands, leaving interest rates at 5.25%. But not, the minutes reveal, before wringing those hands thoroughly over some more statistical revisionism.

The Fed's committee members are confident the economy will continue to grow in line with its sustainable long-run rate, more or less (probably less). But after the statisticians' yearly overhaul of the country's accounts in July, they are no longer sure what that sustainable rate is. The new figures suggest that America's workers are less productive and better compensated, than first thought. As a result, unit labour costs are higher and the economy will have to lose more steam than the Fed had hoped before price pressures subside.

These second takes on old numbers have left central bankers in Washington and Tokyo in an awkward limbo. What to do? Wait for fresh numbers of course! The Fed's pause will give it a chance to “accumulate more information”, the minutes said. The BoJ, on the other hand, seems to be waiting for October's Tankan survey of businesses before deciding what steps to take next. When the facts change, central bankers do not necessarily change their minds. They just wait for the facts to change again.

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Swiss banking

A not-so-private matter

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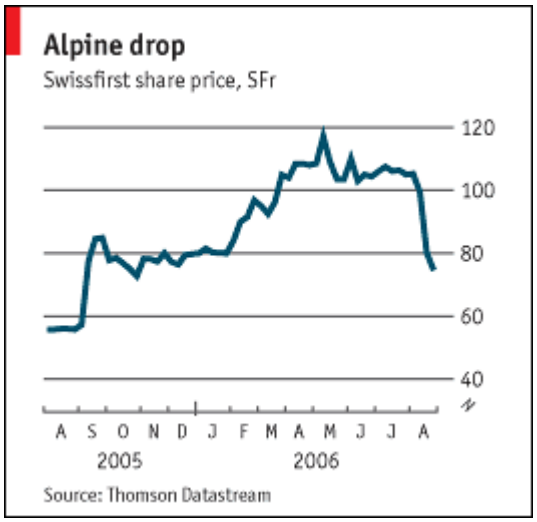
From The Economist print edition

A cosy bank merger gets too close for comfort

NO WONDER Swiss investment bankers like to seem the soul of discretion. Their small market is so criss-crossed by a few large shareholders that it is almost impossible to avoid conflicts of interest. Porous insider-trading rules mean that Swiss corporate deals, however much of a stitch-up they may appear, usually go unchallenged. But not always. Thomas Matter, chief executive of Swissfirst, a private investment bank, resigned this week in a storm of adverse publicity unleashed after a Swissfirst transaction last year.

Rumen Hranov, a Swiss-Bulgarian investor, objected to the way Mr Matter engineered a takeover of Bank am Bellevue, another private bank, and filed charges in November. The case might have died, but in July it flared up because of press suggestions that some corporate and public pension funds, as well as Mr Hranov, may have lost out.



The merger was completed without the issue of new shares by Swissfirst, a publicly listed company. Mr Matter was able to persuade some Swissfirst shareholders to sell him their shares which he later transferred to shareholders of the target company (50% of Swissfirst's outstanding shares were used to pay for Bellevue). Those who sold, including Mr Hranov, missed out on a 50% surge in the share price after the merger (see chart). He and others argue that they were deliberately kept in the dark about the merger, whereas other Swissfirst shareholders were not. Adding one bank's assets to the other without diluting the shares would inevitably drive up the price. Treating shareholders so unequally would not have been possible under British or American law. Even under Swiss law it is arguably dodgy.

A darker side to the saga is the suspicion that some Swiss pension-fund managers benefited from the deal personally (by holding Swissfirst shares or buying call options) while selling their fund's Swissfirst shares to enable the merger. A surge in the option price before the merger suggests there was insider dealing. Zurich prosecutors raided the offices of Swissfirst on August 23rd. This week in the lower chamber of the Federal Parliament there were calls for greater transparency in pension-fund management, with an annual audit of fund managers' personal bank accounts.

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Financing water projects

Pay dirt

Aug 31st 2006
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Buckets, not big irrigation systems, can prevent the world running dry

AFP

WILL the world run short of water to grow crops? Not if it invests in the right projects, according to a group of scientists and economists that has been studying the question for the past five years. The “Comprehensive Assessment”, co-ordinated by the Consultative Group on International Agricultural Research, an international network of research institutes, will not be released until November. But at a recent conference in Sweden, they revealed some preliminary findings. The good news is that small investments in infrastructure for water can yield big returns. Unfortunately, governments and donors have concentrated on more grandiose but less helpful schemes, leaving a third of the world's population—some 2 billion people—short of water.

Agriculture sucks up perhaps 95% of the water humans use. It takes roughly 3,000 litres to grow enough food for one person for one day, or about one litre for each calorie. Moreover, the world's population is growing, and people are eating more than they used to. So the assessment's projections suggest that if nothing changes, agriculture will consume twice as much water by 2050 as it does today.

That is a tall order: as it is, some 900m people, the assessment finds, live in river basins where humans consume more than 75% of the water, leaving barely enough to keep rivers flowing and lakes filled. Another 700m live in basins rapidly approaching this “closed” state; 1 billion more live within reach of adequate water supplies, but cannot afford to gain access to them. The water table is falling fast in densely populated and poor regions of China, Mexico and India.

In theory, the world should still have more than enough water to feed everyone under most circumstances, thanks to sodden places like Canada and Russia. But exploiting the surplus would require much more trade in food from damp spots to the parched ones. A few poor, dry and teeming countries, such as Egypt, along with the odd rich one, like Japan, already depend on imports of food. But most governments are loth to put their citizens at the mercy of the world's imperfect markets.

Instead, governments have tended to try to increase agricultural output through expensive irrigation projects. But smaller investments in simple devices, such as pumps to tap groundwater, are faster to deploy, yield greater returns on capital and bring fewer environmental and social problems. A recent study of vegetable farmers in Ghana, for example, found that those irrigating their fields with wastewater carried by buckets earned a 230% return on their investment, versus 30% for big state-sponsored schemes.

The assessment argues that modest outlays on rain-fed agriculture, in particular, could drastically improve the productivity of farming in poor countries and so help both to raise farmers' incomes and also to cut the need for an expansion of agriculture elsewhere. More than half of the world's food comes from rain-fed farms, as opposed to irrigated ones. If the rains fail, so do the crops. Channels to harvest and direct rainfall and small, sealed reservoirs or tanks to store it, would not only see farmers through dry spells, but also allow them to entice bigger or more valuable harvests out of the same fields. More reliable income, in turn, allows farmers to invest more in seeds, fertiliser and machinery.

In Tanzania rainwater harvesting allows farmers to grow rice or vegetables instead of staples like sorghum and maize. These dearer crops bring in at least twice the revenue and up to seven times as much in good years. If adopted on a grand scale, the assessment argues, such techniques could double crop yields. In that case, the area under cultivation globally would have to rise by only 10% to satisfy growing demand for food by 2050—and there would be plenty of water to go round.

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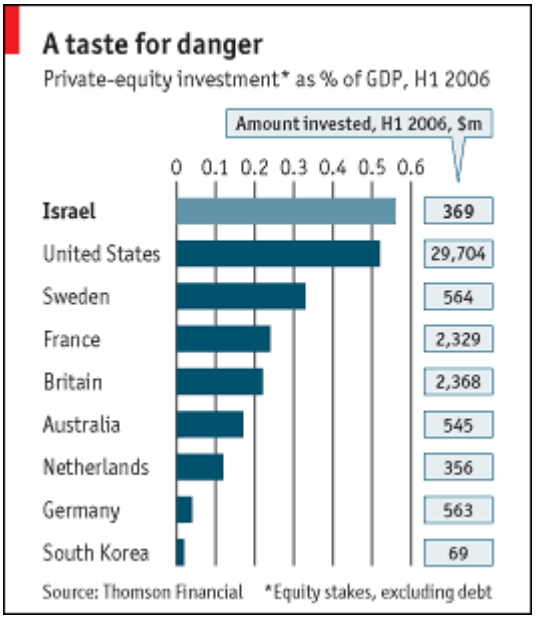
Venture capital in Israel

Of missiles and microchips

Aug 31st 2006
From The Economist print edition

How much risk-appetite do investors in Israel have?



IN MANY parts of the world, entrepreneurs cluster around great research universities. In Israel they pour out of the armed forces, where they learn how to lead and gain a taste for technology. Such veterans have created a hive of new companies—about 3,000 in technology alone—and attracted venture capitalists and private-equity firms from around the world. Before war erupted in mid-July between Israel and Hizbullah in Lebanon, Israel was the world leader in private-equity investment as a share of GDP (see chart).

It is too soon to say how much the conflict and fragile ceasefire that has since held will shake investor confidence. But Israelis appear to be shrugging it off with an appetite for risk that would do the private-equity industry proud. “Sometimes you have to put down your microscope and pick up your machine gun,” chuckles a leading venture capitalist in the country.

But others from places like London or Palo Alto are less accustomed to missiles landing near their offices—and have had to adapt fast. Before the war started, Israel was particularly favoured by venture-capital (VC) firms, which put seed money into new companies. VC funds in Israel raised $1.2 billion in 2005, 65% more than the previous year, according to the IVC Research Centre. Michael Eisenberg, a partner at Benchmark Capital, a global private-equity firm, who arrived from America 13 years ago, says VC investing is “like the national sport”. Foreign investors, who provide more than half the funding for Israeli ventures, range from big private-equity firms like Apax Partners and 3i to pension funds such as CalPERS and the New York State Retirement System.

War has already damaged parts of the economy. The tourism industry, which had been thriving, has been devastated. El Al, the airline, had been predicting a banner year; now it expects a loss. Exports from the north, near the Lebanese border, have fallen sharply. On the other hand, the stockmarket has provided a glimmer of hope: after an initial plunge, the leading market index has rebounded to pre-war levels. And anecdotally, foreign investors have shown fortitude: “People called to ask about my kids,” says Mr Eisenberg, but none expressed concern about the investment situation.

Of course, violence is nothing new in Israel, and the economy has bounced back before. But political and security concerns can hurt. At the height of the four-year Palestinian *intifada*—nine suicide attacks killed 85 Israelis in March 2002 alone—capital-raising and investment fell sharply. From a peak of $4.2 billion in 2000 net private-equity and VC capital raised in Israel sank to virtually nothing in 2002. That was more precipitous than the collapse in America that followed the dotcom bust in 2000. On the other hand, Israel has bounced back fast, to $2.7 billion last year.

Some things that made Israel attractive to private-equity investors before the latest fighting are still attractive today. It has a market-based economy, bags of entrepreneurial spirit, low taxes and inflation, a legal system based on British law and good international connections. It can also boast some decent start-up successes, including Shopping.com (later sold to eBay).

Most private-equity “exits”—whether public listings or sales—happen abroad. Israel accounts for more foreign companies listed on America's NASDAQ market than any other country.

One sign that the industry is maturing is the increase in foreign investors seeking deals outside the technology sector. Both Warren Buffett and Apax Partners have made such investments recently, in a manufacturer and telecoms company, respectively. For the time being, though, it is still technology that gives Israel's VC veterans the edge.

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Lebanon's economy

Debt and destruction

Aug 31st 2006
From The Economist print edition

To add to its woes, Lebanon's economy is saddled with high debts

IN A vicious neighbourhood it helps to have friends. Lebanon needs generous ones, because as it struggles to rebuild itself after the Israeli invasion, it is already bent double under a weight of debt. When its 16-year civil war ended in 1991, a lack of foreign aid and high reconstruction costs left the country with $35 billion to pay off and the second-highest debt-to-GDP ratio in the world. If the country is to avoid adding a debt crisis to its other miseries, it may once again need help restocking the coffers.

Despite images of beaming tourists on the beaches of Beirut and a buoyant property and stockmarket, Lebanon's economy before the invasion was not healthy. In June the IMF forecast that its debt ratio would grow from 175% of GDP to 210% by 2011 and warned that Lebanon could face a “vicious cycle of growing debt, rising interest rates and weak growth.” Last year interest payments accounted for a third of government spending. At 751%, its ratio of debt to revenue was the world's worst, says Tristan Cooper of Moody's Investors' Service, a ratings agency.

Part of Lebanon's troubles stemmed from the assassination in 2005 of Rafik Hariri, the former prime minister and architect of the rebuilding effort after the civil war. His death shook confidence and growth declined from 6% in 2004 to 1% in 2005. But once the Israeli bombing started, everything became a lot worse. According to a report last month by JPMorgan, the fighting may cost Lebanon around a quarter of its GDP, possibly causing an economic slump this year. The government says the damage and lost income will cost it $6.5 billion.

Saudi Arabia and Kuwait have stepped in, offering $2.3 billion to help Lebanon support its currency and rebuild. Others have promised support, too, and the country has a large diaspora of wealthy Lebanese willing to send money from abroad. Samir Makdisi, an economist at the American University of Beirut, says that Lebanon's ability to cope after the war will depend in part on such foreigners paying to repair its damaged infrastructure.

JPMorgan says Lebanon has lost $1.38 billion in foreign reserves since the conflict began. Before the invasion, its reserves were quite healthy—standing at between $11 billion and $13 billion.

Now the priority for the country is to fix transport routes so that goods can flow. On August 31st friendly nations were due to meet in Stockholm to discuss issuing recovery funds to Lebanon. The country has been here before. And, so far, it has never defaulted.

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Economics focus

On the hiking trail

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Globalisation is generating huge economic gains. That is no reason to ignore its costs

VISITORS to Jackson Hole, Wyoming, normally see a few moose and buffalo and sometimes even a bear. But in late August each year some really strange creatures can be spotted: central bankers and economists, meeting for the annual symposium of the Federal Reserve Bank of Kansas City, one of the high points (literally) of the economic calendar. This year's conference focused on how the rise of China, India and other countries is reshaping the world economy.

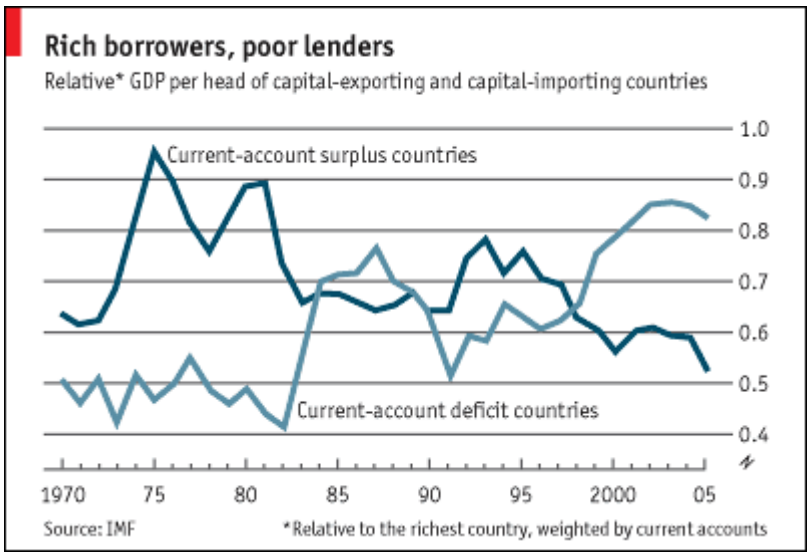
Take wages. It is commonly believed that the wages of unskilled workers in rich countries are being depressed by the shift of jobs to low-wage countries. However, a paper presented at the symposium by Gene Grossman and Esteban Rossi-Hansberg of Princeton University offered a much rosier view, arguing that offshoring can actually increase the wages of unskilled workers. Moving jobs abroad boosts firms' productivity and profits and so enables them to take on more workers at home, which pushes up the wages for work that cannot easily be outsourced abroad. The authors are right to point out that the impact of offshoring on jobs is not as bad as it is usually portrayed. But their own calculations show that between 1997 and 2004 this positive “productivity effect” was not large enough to offset the downward pressure on wages, both from having more workers in the world and from cheaper labour-intensive goods as a result of imports from low-wage countries. The net impact is still to depress the wages of low-skilled workers.

Indeed, the evidence is that the low-skilled are not the only people being squeezed. In America, the euro area and Japan, total wages have fallen to their lowest share of national income in decades, whereas the share of profits has surged. This is exactly what would have been expected, given that the integration into the world economy of the emerging economies has sharply increased the ratio of global labour to capital. Yet this fact barely got a mention in Jackson Hole. In their eagerness to applaud the benefits of globalisation to economies as a whole, economists were strangely reluctant to admit that in recent years the average real pay of rich-country workers has stagnated or even fallen.

Ben Bernanke, the chairman of the Federal Reserve, was one of the few to voice the case for helping the losers. The scale and pace of globalisation, he argued, is unprecedented and the overall gains will be huge. But there is a risk of social and political opposition as some workers lose their jobs. Policymakers, he said, need “to ensure that the benefits of global economic integration are sufficiently widely shared” so as to maintain support for free trade and to stem protectionism. The snag is that the number of losers—including those facing lower real wages—may be bigger than he thinks.

Flowing uphill

Another consequence of global integration has been the build-up of bigger current-account imbalances. According to the economic textbooks, capital should flow from rich countries to poor ones, which have less capital and offer higher returns. Instead capital is flowing “uphill”. The average income per head of countries with current-account surpluses is now much less than that of countries with deficits (see chart). Most notably, America's deficit is largely being financed by poor countries' purchases of treasury securities. Does the lack of foreign capital hurt emerging economies' growth? By borrowing from abroad, a developing country should be able to boost its investment and hence its rate of growth. However, a paper by Eswar Prasad, Raghuram Rajan and Arvind Subramanian of the International Monetary Fund surprisingly finds that developing countries that run current-account deficits (ie, that borrow from abroad) have grown more slowly than those that run surpluses.



One explanation is that developing countries have limited capacity to absorb foreign capital, because of their underdeveloped financial systems, which makes it hard for firms and households to borrow. If productivity growth increases, households save much of the rise in income instead of spending it, while firms' investment remains limited by internally generated funds. So faster growth boosts saving relative to investment and creates a current-account surplus (or a smaller deficit). For some participants at Jackson Hole this suggested less need to lose sleep over global imbalances. If fast-growing developing countries generate more saving than they can use, America can continue to finance its deficit. But by running surpluses, emerging economies are enjoying less investment and consumption than they could. Over time, more mature financial systems will allow higher spending and their external surpluses will disappear. According to some estimates, American bond yields are up to two percentage points lower than they otherwise would be, thanks to the purchase of treasury securities by China and other emerging economies. If these countries lose their appetite for such assets, bond yields could jump and the dollar plunge.

Emerging economies have also allowed central banks to hold short-term rates lower, by making it easier to meet their inflation goals. Ken Rogoff of Harvard University argued in his paper that China's integration into the world economy has helped to hold down inflation by reducing the bargaining power of workers, thereby also bolstering the credibility of central banks. He suggested that central bankers should have responded to the fall in import prices from China by allowing inflation to fall below target. But the Fed held interest rates unusually low to prevent that.

America's economy has benefited hugely from lower interest rates and bond yields, thanks to the emerging economies. Cheap money helped to fuel a housing bubble and support consumer spending. But what happens if the impact of globalisation on inflation goes into reverse, or if emerging economies lose their lust for dollars? Both would push up the cost of borrowing, with unhappy consequences for America's debt-ridden economy.

The papers are available at www.kc.frb.org/publicat/sympos/2006/sym06prg.htm

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Attosecond science

The fast show

Aug 31st 2006
From The Economist print edition

Extremely short laser pulses can illuminate electrons in motion

ON THE atomic scale, things move mind-bogglingly quickly. Electrons jump between orbits or escape the nucleus altogether in attoseconds—that is, million, million, millionths of a second. Indeed, one attosecond is to one second what one second is to the age of the universe. Seeing such acrobatics takes wit and ingenuity, but it is possible. Moreover, if such processes could be manipulated—and the early signs are that they can be—then it would have applications in fields as far apart as computing and medicine.

A report just drafted by America's National Research Council, “Controlling the Quantum World”, outlines how scientists might manipulate the inner workings of a molecule. A long-term workshop at the Kavli Institute for Theoretical Physics, part of the University of California, Santa Barbara, is also investigating how this might be achieved. And, at a conference held recently at the institute, Ferenc Krausz of the Max Planck Institute of Quantum Optics in Garching, Germany, and Marc Vrakking of the FOM Institute for Atomic and Molecular Physics in Amsterdam described one way that it could be done.

Lasers work by creating a chain reaction in which photons of light prompt the generation of further photons. These photons are emitted in bursts. Shortening each burst sufficiently is what makes attosecond science possible. The two researchers employed what they call “high harmonic pulse generation” to create pulses a few hundred attoseconds long. They did this by using a laser that emits short pulses of light to drive a second laser that then emits even shorter pulses. In fact, the pulses are so rapid that they come close to the limit imposed by Heisenberg's famous uncertainty principle, which states that the precision of a time measurement is limited by the precision of a corresponding energy measurement.

Atto boys

Dr Krausz and Dr Vrakking fired their laser at a molecule of deuterium. Deuterium, also known as heavy hydrogen, is a simple molecule, consisting of two atomic nuclei and two electrons. The sample under investigation became positively charged because zapping it with the laser removed one of the electrons. The researchers found that the molecule then separated into a deuterium atom, consisting of a nucleus

and an electron, and a deuterium ion, consisting of a nucleus.

Using conventional laser pulses causes atoms and ions to be ejected to the right and left at random. Using ultrafast laser pulses, though, makes the atoms fly off to the right and the ions to the left. The researchers were thus able, in effect, to control on which of the two deuterium atoms the electron resides at the end of their experiment. That is to say, they had separated the atoms from the ions.

Exactly how this works is complicated—not least because all of the atoms are interacting simultaneously with the laser and with each other. But the researchers think that the laser pushes the electron, which initially binds the two atoms together, back and forth between the two ions until, at some point, the distance between the two gets too large and it is no longer able to jump from one to the other.

The ability to manipulate electrons in this way is important because electron-sharing is essential to chemical bonding. Ultrafast lasers could thus be used to change the outcome of chemical reactions. Proponents point to possible applications in magnetic information-storage devices, which would lead to much more powerful computers. Other possibilities include the development of compact, portable X-ray lasers for medical imaging that needs to be done outside hospital radiology departments, and bright ultrafast X-ray lasers for use within those departments.

The motion of electrons is the fundamental basis of chemistry. Watching the steps in the dance of the electrons will help chemists work out why some atoms bind when others do not, why reactions take the time that they do, and why some molecules bend one way and not the other. Brighter X-ray lasers could also be used to reveal the atomic details of chemical catalysis or the way that light energy is absorbed and stored during photosynthesis, according to the National Research Council report. Knowing exactly how to capture sunlight and turn it into chemical energy would be a prize indeed.

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Cryptography

The non-denial of the non-self

Aug 31st 2006
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How philosophy can help create secure databases

IN THE 1940s a philosopher called Carl Hempel showed that by manipulating the logical statement “all ravens are black”, you could derive the equivalent “all non-black objects are non-ravens”. Such topsy-turvy transformations might seem reason enough to keep philosophers locked up safely on university campuses, where they cannot do too much damage. However, a number of computer scientists, led by Fernando Esponda of Yale University, are taking Hempel's notion as the germ of an eminently practical scheme. They are applying such negative representations to the problem of protecting sensitive data. The idea is to create a negative database. Instead of containing the information of interest, such a database would contain everything except that information.

The concept of a negative database took shape a couple of years ago, while Dr Esponda was working at the University of New Mexico with Paul Helman, another computer scientist, and Stephanie Forrest, an expert on modelling the human immune system. The important qualification concerns that word “everything”. In practice, that means everything in a particular set of things.

What interested Dr Esponda was how the immune system represents information. Here, “everything” is the set of possible biological molecules, notably proteins. The immune system is interesting, because it protects its owner from pathogens without needing to know what a pathogen will look like. Instead, it relies on a negative database to tell it what to destroy. It learns early on which biological molecules are “self”, in the sense that they are routine parts of the body it is protecting. Whenever it meets one that is “not self” and thus likely to be part of a pathogen, it destroys it. In Hempel's terms, this can be expressed as “all non-good agents [pathogens] are non-self”.

The analogy with a computer database is not perfect. The set of possible biomolecules is not infinite, but it is certainly huge, and probably indeterminable. The immune system does not care about this, because it has to recognise only what is not in its own database. Make one adjustment, though, and you have something that might work for computers. That adjustment is to define “everything” as a finite set, all of whose members can be known—for instance, all phrases containing a fixed maximum number of characters.

A database of names, addresses and Social Security numbers (a common form of identification in America) might require only 200 characters to contain all possible combinations. That would limit the total number of character combinations. A positive database containing all the data in question would be a small subset of those combinations. The negative counterpart of this database would be much larger and contain all possible names and addresses that were not in the positive database plus a lot of gibberish. But it would not be infinite. By looking at the negative database, it would be possible to deduce what was in the positive database it complemented.

That would not guarantee security against a search for the presence or absence of a particular name and address. Indeed, the whole point is that such searches should be possible. But it would prevent fishing expeditions by making it impossible, for example, to look for the Social Security numbers of all the people living on one street.

Dr Esponda sees great potential for using negative databases when there is a need to look at the intersection of many sets of data owned by different parties. Two or more banks, for example, might wish to work out which transactions they have in common without revealing the whole contents of their databases. Using negative databases to do this would, according to Dr Esponda, provide a robust back-up to traditional cryptography, which relies on codes that can be broken.

An interesting extension of the idea might be to use negative surveys to collect sensitive information privately. Dr Esponda gives the example of a negative survey in which respondents are asked to tick the box of one sexually transmitted disease they do not have. He reckons that this would be sufficient to estimate the population frequency of each disease, without having to ask people whether they actually suffer from such diseases—which is intrusive and also invites lying. As he puts it: “In Hindu philosophy, to find out who you are, you ask what are you not. Then you are left with what you are.”

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Supernovas

A beautiful remnant

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This is a photograph of Cassiopeia A, the gaseous remains of a supernova that would have been visible from Earth in about 1667. Oddly, no one seems to have noticed it at the time and it was first detected in 1947 as a radio source. Even then, although it is the brightest radio source in the sky outside the solar system, optical telescopes could not locate it for several years. The image was taken by the Hubble space telescope. Comparing it with ones taken a few months ago enables the process of expansion to be studied. Cassiopeia A, despite having been missed by 17th-century astronomers, is a mere 10,000 light years away. Contrast that with a supernova, described in this week's *Nature*, that is 440m light years away. Astronomers have much sharper eyes at their disposal now than they did four centuries ago.

NASA

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Antioxidants

Drink up thy zider

Aug 31st 2006 | DULCOTE, SOMERSET
From The Economist print edition

Scrumpy could be good for you

CIDER is not normally associated with the health-preserving yoga crowd. Such sensitive souls tend to crunch apples with names like Honeycrisp and Royal Gala and leave the fermented juice of Broxwood Foxwhelp and Somerset Redstreak to a hairier variety of human. But hope springs eternal. After the successful rebranding of red wine as a health-enhancing drink a few years ago (at least, if consumed in moderation), Britain's cidermakers hope that the same thing might come true for their own nectar.

The magic word that makes them think this is “phenolics”. Phenolic compounds help give cider its taste, but they also have antioxidant properties. That means they destroy certain sorts of oxygen-rich molecules that have been linked, at least circumstantially, to age-related complaints such as heart disease, neurodegeneration and cancer. Britain's National Association of Cider Makers has thus sponsored Serena Marks, a researcher at the University of Glasgow, to look into the matter.

Ms Marks's first task was to measure the phenolic content of 24 types of British cider apple. Encouragingly, she found that all of them contain more phenolic compounds than Golden Delicious, a bland variety of eating apple. Some contain ten times as much. The question is, do those phenolics help cider drinkers?

As part of her efforts to find that out, Ms Marks's freezer is now full of plasma and urine collected from cider enthusiasts. The samples were taken last week from 12 volunteers who went away £50 ($95) the richer for having imbibed a cider breakfast after 36 hours without consuming any antioxidant-containing food or drink. These samples should reveal how many of the phenolics found in cider are excreted. They should also give clues as to how the rest are metabolised—in other words, whether they might give any health benefits.

In particular, Ms Marks wants to know if the cidrous molecules that make it into the blood are those associated with a reduced likelihood of developing afflictions such as heart disease. If they are, it might mean that there is some truth to the old proverb that an apple a day keeps the doctor away. Provided, of course, that the apple comes in liquid form with wasps floating in it.

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Dutch courage and the death of Theo van Gogh

Counting the cost

Aug 31st 2006
From The Economist print edition

Reuters

A usually tolerant country troubled by intolerant Muslim extremism

NOT for nothing is it known as the Low Countries. The flat, watery Netherlands, inhabited by respectable burghers of the sort painted by Frans Hals, is normally a placid, prosperous place, and a bastion of enlightened liberalism. In modern times, indeed, it has become famous (or, to some, notorious) for its social tolerance: of gays, prostitution, soft drugs and, perhaps above all, of ethnic minorities.

Yet this tolerance is being severely tested. It began in May 2002 with the assassination by an animal-rights activist of Pim Fortuyn, a flamboyant, right-wing, anti-immigrant populist. Then, in November 2004, came the murder of Theo van Gogh, a film-maker who had made a movie, “Submission”, featuring a beaten, naked Muslim woman covered in writings from the Koran. The killer, a Dutch-born Muslim of Moroccan origin, shot and then tried to decapitate Van Gogh, before pinning a note to the corpse threatening Ayaan Hirsi Ali, a Dutch Muslim who co-wrote the script of “Submission”.

The killings shattered the Netherlands. Fortuyn's assassination, declared Jan Peter Balkenende, the present prime minister, was “un-Dutch”. In fact this is not quite true. William the Silent was the first political leader ever assassinated with a gun, as long ago as 1584, and the de Witt brothers were literally torn apart by a mob in The Hague in 1672. Nor is Dutch society always as tolerant as it seems. Rural Calvinists are highly moralistic and strait-laced; and the Dutch collaborated shamefully in deporting almost all their Jews to German concentration camps in the war.

Murder in Amsterdam: The Death of Theo van Gogh and the Limits of Tolerance
By Ian Buruma

Penguin Press; 320 pages; $24.95.
Atlantic Books; £12.99

Buy it at
Amazon.com
Amazon.co.uk

The horrific killing of Van Gogh is the centrepiece of Ian Buruma's splendid new book, “Murder in Amsterdam”, which comes out this week in America and in Britain in October. Mr Buruma is Dutch by birth, but left his homeland partly because it seemed so boringly middle class. After the murder he returned to see if this was still true. He starts his tale with Fortuyn and carries it up to last summer,

when disgruntled Dutch voters rejected the European Union constitution in their first-ever referendum—though his book ends before the latest twist, when Ms Hirsi Ali, a Somali-turned-Dutch politician who has spent two years under police protection, tearfully announced that she was quitting the Netherlands for the safer haven of America.

Has the Netherlands changed? Yes, and as a result of one development that has also occurred elsewhere in Europe: mass immigration. Until the 1950s the Dutch were a largely homogeneous people. A few Indonesians and Surinamese aside, this remained true right up to the 1960s. But mass immigration, especially from north Africa and Turkey, has had a huge impact. As Fortuyn pointed out on the campaign trail, by 2020 ethnic minorities will become majorities in the four biggest Randstad cities—Amsterdam, The Hague, Rotterdam and Utrecht.

In keeping with their tradition of tolerance the Dutch embraced “multiculturalism” for the new immigrants—like the British, but unlike the French, who have always preached “assimilation”. Fortuyn challenged this. He did it not on racist grounds (as an avowed gay, he talked fondly of Moroccan boys) nor even because, as he also put it, “the Netherlands is a full country.” His argument was that those who lived in his country should learn to abide by its social and cultural mores—and be kicked out if they refused. That message was aimed at Muslims, whose attitudes to women, gays and free speech are, well, un-Dutch.

The conundrum facing the Netherlands and other countries in Europe is how to tolerate a growing minority that is itself increasingly intolerant. Mr Buruma produces a persuasive analysis of the rise of radical Islam in the Netherlands, but offers precious few answers. Ever since Van Gogh's murder Dutch society has been in a funk. The spectre of Islamist terrorism haunting Europe only makes it worse.

Ms Hirsi Ali, for her part, is in no doubt of what is needed. As she argues in “The Caged Virgin”, a book of newly translated essays, Islam must be made to go through an enlightenment, or reformation, to emancipate Muslim women. Ms Hirsi Ali is a fierce opponent of multiculturalism. She believes it is wrong and even dangerous for the tolerant and liberal to accept the intolerant and illiberal. And she thinks the West should not be afraid to proclaim the superiority of its system.

Yet attempts to coerce Muslims into adopting Western values risk a backlash. Europe needs to come to terms with Islam as a European religion. It is also striking, as Mr Buruma notes, that the most radical Muslims are not immigrants, but the second generation: those born in Europe who grow up disaffected, rootless and (all too often) jobless. These are the people who must be persuaded that they have a stake in a modern, liberal democracy. For the Netherlands, as for all of Europe, that requires better education, better housing, lower crime—and more job opportunities.

Will these benefits come? Mr Balkenende's centre-right coalition government is unpopular and looks likely to lose to the Socialist-led opposition under Wouter Bos in November's election. The Dutch economic miracle of the 1990s is long over: although the country has generally done better than its German and French neighbours, it suffers from many of the usual European ills of (sometimes disguised) unemployment, poor schools and an excessively generous welfare state. As Mr Buruma shows, economic reform and faster growth may be the best answer to radical Islam, as to so much else. But it is not clear that a new Dutch government will be able to deliver them.

Murder in Amsterdam: The Death of Theo van Gogh and the Limits of Tolerance.
By Ian Buruma.
Penguin Press; 320 pages; $24.95.
Atlantic Books; £12.99

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About sponsorship

The J curve

The geometry of geopolitics

Aug 31st 2006
From The Economist print edition

BOOKS based on graphs are all the rage. First came Malcolm Gladwell's “The Tipping Point”, about a kink in a graph where the adoption of a new idea starts to increase exponentially. Then came “The Long Tail” in which Chris Anderson argued that in future profits will shift from the fat, mass-market head of the distribution curve of consumer demand to the many niches found in the long tail of that distribution. And now there is “The J Curve”, an attempt to sum up in one simple graphic arguably the world's most pressing geopolitical challenge: how to turn authoritarian regimes into stable, open democracies.

The J Curve: A New Way to Understand Why Nations Rise and Fall
By Ian Bremmer

Simon and Schuster; 320 pages; $26 and £17.99

Buy it at
Amazon.com
Amazon.co.uk

Like the long tail, the J curve is an old shape given new meaning by its author, Ian Bremmer, founder of Eurasia Group, a firm that advises on political risk. The J is formed as the line moves along the x axis, falling before eventually rising far above its starting point. In Mr Bremmer's graph, the x axis measures political openness (internally and to the outside world), and the y axis the stability of a country, meaning its ability to survive political shocks.

The shape of the curve contains several important political messages. First, closed regimes—North Korea, say, or Cuba—are often more stable than more open countries. The belief that such regimes need only a small shock to cause their implosion is probably wishful thinking. Second, to move from being a closed regime to an open one, a country “must go through a transitional period of dangerous instability” that may require its leaders to spend huge amounts of political capital with no guarantee of success. Third, for a country on the closed-but-stable left side of the J curve, it is far easier to increase stability by becoming more closed and authoritarian than by embracing openness.

Mr Bremmer argues that this transitional problem has often been ignored by international policymakers, above all by the current Bush administration. Spreading democracy around the world is no magic bullet, even if it is a laudable long-term goal. Some closed regimes are simply not capable of coping with it; foreign powers such as America should help prepare them for greater openness, not push them there too fast. Likewise, he is scathing about America's current penchant for rewarding its friends whilst punishing countries it dislikes, which often helps authoritarian leaders by giving them an external threat they can use to justify becoming even nastier.

Does the J curve describe every country? Or are there multiple paths that countries can follow towards openness, some less risky than others? If true, Mr Bremmer's analysis may give rise to despair. He is quick to condemn punishment-based policies that further isolate authoritarian regimes, especially economic sanctions, and Iraq-style enforced regime changes. Yet his proposals for helping open up closed countries—more trade, broadcasting information about life in the outside world—seem scarcely adequate given the risks now being posed to the world by some of its most authoritarian states.

The book contains many case studies of countries at various points on the J curve, from closed to in-transition, none of which—even relative successes such as India and South Africa—is unambiguously hopeful. The world has seemed a riskier place of late. Mr Bremmer's analyses of China, Russia and Iran, in particular—each of which he places on the authoritarian left side of the J curve—convincingly make the case that it is going to get riskier.

The J Curve: A New Way to Understand Why Nations Rise and Fall.
By Ian Bremmer.
Simon and Schuster; 320 pages; $26 and £17.99

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Dealing with Iran

What to do

Aug 31st 2006
From The Economist print edition

THERE is no shortage of new writing about Iran. Memoirs, prurient and otherwise; travel accounts; worthy political tomes: all tastes are being catered for as readers—and the publishing trade—turn to look at the likely next epicentre of conflict in the Middle East. Now two academics, Ali Ansari and Ray Takeyh, who are based, respectively, in Britain and America, lend their voices to the cacophony. Do their books have anything new to say about the Islamic Republic and its place in the world, and, equally important, a new way of saying it?

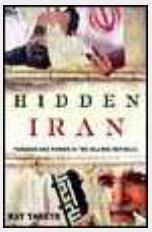
Mr Takeyh's "Hidden Iran" is a sober, American-accented *tour d'horizon* of Iranian resentments, fears and ambitions. The historical context that the author provides for Iran's venomous relations with America, its assiduous networking in neighbouring Iraq and the help it provides to militantly anti-Israel groups such as Hizbullah and Islamic Jihad, is authoritative. So is his argument that America, since it does not appreciate the nuances of Iranian politics, has missed opportunities to end decades of hostility. Indeed, weeks after Iran lent America a helping hand in toppling Afghanistan's Taliban government in 2002, George Bush included the Islamic Republic in his "axis of evil".

Reuters

Malign or maligned?

Although Mr Takeyh, clearly, has no sympathy for Iran's Shia theocracy, the Islamic Republic that he describes is more pragmatic than the prevailing Western view, of an "irrational rogue state" bent on wreaking destruction, would allow. There is nothing so extraordinary, in his depiction, about isolated Iran's quest for technology that it could use to build nuclear weapons—a quest that may soon lead to the imposition of United Nations sanctions. Rather than confrontation, he urges "selective partnership" between Iran and America. He singles out approaching Iraq, for instance, where both countries have a shared interest in defeating Sunni militancy, as a way of defusing tensions.

Hidden Iran: Paradox and Power in the Islamic Republic
By Ray Takeyh



Times Books; 272 pages; $25.
Henry Holt; £16.95

Buy it at
Amazon.com
Amazon.co.uk

Confronting Iran: The Failure of American Foreign Policy and the Next Great Crisis in the Middle East
By Ali M. Ansari

Perseus; 288 pages; $26.

Buy it at
Amazon.com
Amazon.co.uk

Locust-like shopping

Mr Takeyh's account is solid enough, but it rarely offers new insights, and his style, which occasionally strays into grandiloquence ("Iran's American nemesis is entangled in an Iraq quagmire" is one unedifying example) is not very engaging. Although it covers some of the same ground, Mr Ansari's "Confronting Iran" is far more lively. Drawing on primary sources, Mr Ansari writes well about the gradual souring of Iranian attitudes to America after Iranian nationalists, early in the 20th century, identified disinterested-seeming America as a replacement for the British and Russian imperialists that had spent the previous hundred years squabbling for control over the country.

After the infamous coup of 1953, in which the CIA toppled an Iranian prime minister, Muhammad Mossadegh, bolstering the shah, the number of Americans living in Iran increased until they numbered

40,000 on the eve of the 1979 revolution. Mr Ansari cites a fascinating survey, commissioned by the American embassy in Tehran in 1976, which found that middle-class Iranians were put off by Americans' aggressive driving and shopping—“locust-like”, in the words of one respondent—and by their habit of putting their feet on the table. The revolution was as much about getting shot of America as it was about getting shot of the shah.

Since then, America has failed to read Iran correctly. Mr Ansari also castigates the European Union for going easy on Iran's human-rights abuses. His reading of contemporary Iran can be questionable, such as when he underestimates the still-considerable influence of organised religion and mischaracterises Iranian conservatives as “neoconservatives”. Mr Ansari accuses America of being “blinded by its loyalty to Israel”, a hot potato that Mr Takeyh does not touch. His blunt approach makes his the more rewarding read. But who in Washington, DC is listening?

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China

Big bad wolf

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“HAD Mao died in 1956, his achievements would have been immortal. Had he died in 1966, he would still have been a great man but flawed. But he died in 1976. Alas, what can one say?” That was how Chen Yun, for decades one of China's senior Communist leaders, tried to summarise the complex historical legacy of Mao Zedong.

Mao of course had plenty to answer for before 1966. But focusing on that last demented decade of the chairman's life, and marshalling an impressive range of source materials, Roderick MacFarquhar and Michael Schoenhals have gone a long way in their impressive new study towards proving the aptness of Mr Chen's view.

EPA

The shine fades

Recent years have been difficult ones for Mao and his legacy—abroad, anyway. At home, official historians continue to treat him well enough, acknowledging that he made serious errors while insisting nevertheless that the good far outweighed the bad. Of course they have no choice—China's government and Communist Party are still led by heirs of Mao who continue to derive their own political legitimacy from him. Although the country's leaders have undone nearly all of his policies, they cannot yet bring themselves to reckon openly with his dark side. Thirty years after his death, Mao's body—looking ever more waxen as time goes by—still occupies pride of place in a mausoleum in the centre of Beijing, while his visage adorns both the nearby Gate of Heavenly Peace and every new banknote in the land.

Mao's Last Revolution
By Roderick MacFarquhar and Michael Schoenhals

Harvard University Press; 693 pages; $35 and £22.95

Buy it at
Amazon.com
Amazon.co.uk

The damage to Mao's reputation has come instead from writers publishing abroad. “The Private Life of Chairman Mao”, a 1994 book by his personal physician, Li Zhisui, reported countless unappetising details on everything from Mao's atrocious personal hygiene to his mercurial and vindictive approach to politics. In an influential biography published last year, Jung Chang and Jon Halliday took relentless aim at their subject, portraying just about everything he did in the worst possible light, and the man himself as a virtual monster. That book, “Mao: The Unknown Story”, has since come in for some withering criticism of its own from scholars who—even while accepting that there is indeed much about Mao that was monstrous—have raised questions about the authors' objectivity. Nevertheless, that book has had a measurable impact on Western views of Mao.

“Mao's Last Revolution” is nothing like the same rip-roaring read. Indeed, the painstaking level of detail that is among its greatest strengths may make it too much for readers with anything less than a consuming interest in China. But with their scholarly credentials, their assiduous selection and use of sources and their even-handed approach, Messrs MacFarquhar and Schoenhals have produced a work that will hold up far better.

There is, for example, a useful unpacking of the domestic and international political dynamics that inspired Mao to launch the Cultural Revolution: Mao felt his supremacy threatened by rivals at home, and

the future of the communist revolution threatened in the Soviet Union by Khrushchev's revisionism and, perhaps more to the point, his denunciations of Stalin. “The Cultural Revolution”, write the authors, “had always been about the rearing of revolutionary successors.”

If explanations are offered, no punches are pulled in recounting the sheer recklessness and cruelty with which Mao responded to these perceived dangers. The heart of the book is a detailed chronicle of how Mao cynically twisted ideology and manipulated those around him, setting off hysterical and murderous attacks on everything from Confucian morals and bourgeois culture to intellectuals, “capitalist roaders” and “class enemies”.

Using sources that range from official party and government documents to letters, diaries and interviews with surviving participants and victims, the authors document the orders that went out, the mayhem that resulted and the fear it all struck in the hearts of people across the country. And it is chilling stuff. In August and September of 1966, for example, as thousands were being murdered in Beijing, Shanghai and elsewhere, Mao put out the word that the police were not to interfere. Faithfully relaying Mao's instructions to the Beijing police force, the public security minister assured them that, “After all, bad persons are bad, so if they're beaten to death it is no big deal.”

If Mao fares poorly, there is also plenty in this book to indict Chinese society and political culture as well, for allowing the insanity Mao unleashed to take root and run wild for a full, devastating decade. As Messrs MacFarquhar and Schoenhals point out, the Red Guards rampaged through Chinese factories, towns, schools and government departments to attack the ever-changing targets of Mao's choosing with a damnably solid enthusiasm.

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By Roderick MacFarquhar and Michael Schoenhals.
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Vegetarianism

Indian tonic

Aug 31st 2006
From The Economist print edition

THE esteem in which mankind holds its furrier friends may be an indicator of the conception it has nurtured of itself. In the dualistic universe mapped out by Descartes in the late 17th century, for example, animals were regarded as cogs in the vast machinery of nature. Man, by virtue of the reflective soul that set him apart from the rest of Creation, was cast in the role of master of the natural world. By contrast, the acceptance a century later of Jean-Jacques Rousseau's portrait of mankind as just another, more adaptive kind of animal had proved so widespread that man was as likely to consider himself nature's student as its (perhaps incompetent) master.

This evolution and the light it sheds on a certain strand of cultural and intellectual history, lies at the heart of “The Bloodless Revolution”. Despite his serious approach, Mr Stuart has a relaxed, semi-anecdotal style which repays both careful engagement and lighter dipping. Beginning, for example, with a quotation from “Withnail and I”, a British film in which the heroes are prevented from killing a chicken by its “dreadful, beady eyes”, he moves on to the issue of man's sympathy—or otherwise—for animals, a thorn in many a non-vegetarian side.

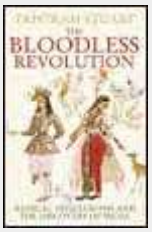
Europe's use of India as an anthropological mirror has attracted much attention over the past 30 years. But the book's strength lies not in uncovering substantial new ground—although the motley assemblage of characters and creeds provides plenty of this too—but in its exposé of vegetarianism as a way of offering refreshing perspectives on these and other areas.

Some readers will be aware that Pythagoras' vegetarianism was predicated on the immortality and reincarnation of souls and the consequent worry in killing a beast “lest”, as Shakespeare wrote, “thou dispossess the soul of thy grandam”. Fewer perhaps will know that Pythagoras may have learned this doctrine—part of which establishes the foundations for a continuous strand of Western metaphysics—from the ancient Hindu Brahmins. Fewer still will know of the 17th-century Christian Kabbalists exploring the same ideas. One even spotted a flaw in the Pythagorean system by which if reincarnation is the soul's journey through a progression of corporeal states to eventual perfection, then the ending of an animal's life only expedites its upward journey and can hardly be condemned on these grounds.

Mr Stuart's fluent pen occasionally makes minor errors, and his animosity to Descartes obscures some of the issues at stake. But with the balance of an easy style and comprehensive, if discreet, research, he avoids most of the pitfalls of popular histories in which seeming ephemera take centre stage. Thankfully too, those other singularly vegetarian dangers—preachiness and a copious flow of hot air—could not be less in evidence.

The Bloodless Revolution: Radical Vegetarians and the Discovery of India.
By Tristram Stuart.
HarperCollins; 416 pages; £25. To be published in America by Norton in January 2007

The Bloodless Revolution: Radical Vegetarians and the Discovery of India
By Tristram Stuart



HarperCollins; 416 pages; £25. To be published in America by Norton in January 2007

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New fiction

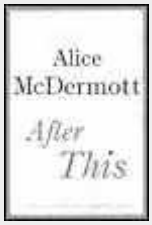
Still waters

Aug 31st 2006
From The Economist print edition

UNDERSTATED writing is a powerful tool and Alice McDermott uses it to great effect in her sixth novel, a portrait of the march of time in the decades after the second world war. “After This” explores the social and political upheavals of the era through the experiences of John and Mary Keane and their four children, who live in a close-knit, Irish-Catholic neighbourhood on Long Island.

While their parents' attitude to life is anchored by traditions of heritage and faith, the children become increasingly influenced by the changing mores of their generation. Doubt and loss of innocence affect each of them: tentative, fragile Jacob is sent to fight in Vietnam (news of his death is one of the most disarmingly underplayed moments of the book); hardbitten Michael finds consolation in drink and drugs; Annie runs to London with her lover; and Clare's aura of sweet goodness crashes to the ground when she becomes pregnant.

After This
By Alice McDermott



Farrar, Straus and Giroux; 288 pages; $24

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These profound experiences are illustrated by no more than a ripple on the surface of Ms McDermott's gentle writing, which meanders through the twists and turns of human life like a slow-flowing river. In a series of separate yet interlinked vignettes, the author uses each chapter to portray a particular occasion or emotion—a blustery beach picnic; the birth of a baby; a father's love for his children “heavy stones against his thumping heart”. In lesser hands this approach could be disjointed but here these stand-alone pieces are woven into an undulating story of depth.

Emphasising the joys and sorrows of what it is to be a family is Pauline, Mary's best friend, and a finely crafted character. A sad spinster, her broad backside clad in a “good wool skirt”, she plays aunt to the Keane children which, although making her feel useful, never quite alleviates the “ache of hollow longing” or her awareness of “her own arms being empty”. The author's description of Pauline returning from days spent in the busy Keane household to a lonely Sunday night in her apartment—“the most terrible hours of any week”—made bearable only by “another Manhattan with Ed Sullivan”, is poignant.

“After This” is more than a book about an influential time in history and its effect on those living through it. In its portrayal of the emotions that hold people and families together—the loyalties and frustrations, the sorrows and joys—this quietly unusual novel is ultimately about what it is to be human.

After This.
By Alice McDermott.
Farrar, Straus and Giroux; 288 pages; $24

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About sponsorship

Naguib Mahfouz

Aug 31st 2006
From The Economist print edition

Magnum

Naguib Mahfouz, a great Egyptian writer, died on August 29th, aged 95

GREAT writers often seem to haunt their cities. Joyce and Kafka remain ghostly figures on the streets of Dublin and Prague, and the elfin presence of Borges is still glimpsed, through cigarette smoke and tango sweat, in the cafés of Buenos Aires. In the ancient city of Cairo, it is Naguib Mahfouz who does the haunting.

This is not simply because he was a towering literary figure, and the joyous chronicler of a turbulent Egyptian century. Nor is it just because he populated his works—35 novels, more than 20 film scripts and a dozen collections of stories, essays, anecdotes and dreams—with a cast of memorably strong urban characters. Mr Mahfouz himself embodied the essence of what makes the bruising, raucous, chaotic human anthill of Cairo possible.

He was a perfect gentleman: self-effacing, tolerant to a fault, and a consummate listener. Into his 70s he prowled far across the city on solitary early-morning walks, typically ending up in one of the many cafés where he was greeted as a returning son of the *quartier*. Into his 90s he rarely missed his weekly gathering of intimates at some public watering hole. There he soaked up the endless tales of woe, the political gossip and wicked jokes that provide the spice of Egyptian life.

He could be outspoken, too. He bucked his country's intellectual fashions at times, condemning oppression under the populist revolutionary government of Gamal Abdel Nasser, praising his successor, Anwar Sadat, for seeking peace with Israel, and frequently challenging received pieties, including those of Islam. His wry wit could be scathing, and his social satire bit to the bone: Si El-Sayed, the authoritarian father figure of his most ambitious work, “The Cairo Trilogy”, has become an Arabic byword for monstrous male chauvinism.

The world in alleyways

Mr Mahfouz knew his subject like a true *ibn balad*, a son of the Cairo soil. The youngest of seven children, he was born, in 1911, in Gamaliya, a 1,000-year-old quarter whose densely packed and labyrinthine lanes were overhung by balconies that blotted out the daylight. By the time he was six his father, a local merchant, had done well enough for himself to join the flight of Cairo's burgeoning middle class to the

airier, more modern parts of town. But Mr Mahfouz never lost his love of the Old City. Many of his most pungent novels were set there and drew their titles from it: “Zuqaq al Midaq” (Midaq Alley), “Al Sukkariya” (Sugar Street). In several works, too, the humble Old City alleyway or *hara*, the turf of Cairo street gangs and the locus of urban loyalties, became a metaphor for Egypt or for the world itself.

His father hoped he would study medicine, but Mr Mahfouz chose philosophy instead. Drawn to European literature, and caught up by the fashion for Egyptology sparked by the discovery in 1922 of Tutenkhamen's intact tomb, he began dabbling in writing. By the mid-1940s he had published three historical novels set in ancient Egypt, and planned a long further series.

But politics and happenstance intervened. The second world war and its aftermath provoked seething debate in Egypt's class-ridden society. At the same time, Mr Mahfouz struck up a close working friendship with Salah Abu Seif, who was to be one of Egypt's most prolific film directors. Both these things focused Mr Mahfouz's attentions and talent on the real-life drama of Cairo's streets.

Between the mid-1940s and the mid-1960s he produced the dozen realist novels that are widely considered the main body of his work. He rarely touched directly on the big events of the times but, like the European novelists he so enjoyed, he explored historical trends as experienced by ordinary people. Through them, he described the clash between tradition and modernity, the alienation of the individual, the struggle for personal dignity amid pervasive poverty and state repression.

The result was a body of work that bore comparison with Balzac and Dickens. But Mr Mahfouz also introduced his audience to a new way of seeing. He enriched an Arabic literature which, while perhaps incomparable for its poetry, was then still largely innocent of the fully formed imaginary world of the novel.

Writing was a joy to him. He loved the sheer act of it, writing every morning and always in longhand. This made the worst drama of his own life particularly cruel. In his 83rd year, a knife-wielding religious fanatic stabbed him in the neck. The would-be killer—inspired, it seems, by clerical objections to allegorical characters in one of Mr Mahfouz's books—failed in his mission, but nerve damage stopped Mr Mahfouz writing for five years.

He himself might possibly have dreamed up such an act of sudden violence for one of his plots, but religion would never have been the motive. As he accepted the 1988 Nobel Prize for Literature, he declared himself a happy and grateful receiver of Egyptian, Islamic and Western cultural traditions. What exemplified Islam for him, he said, was the decision by one early Muslim ruler to ransom Christian prisoners in exchange for works of Greek philosophy, medicine and mathematics. It was that curiosity, and generosity of spirit, that Mr Mahfouz wished to prevail in his city.

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Overview

Aug 31st 2006
From The Economist print edition

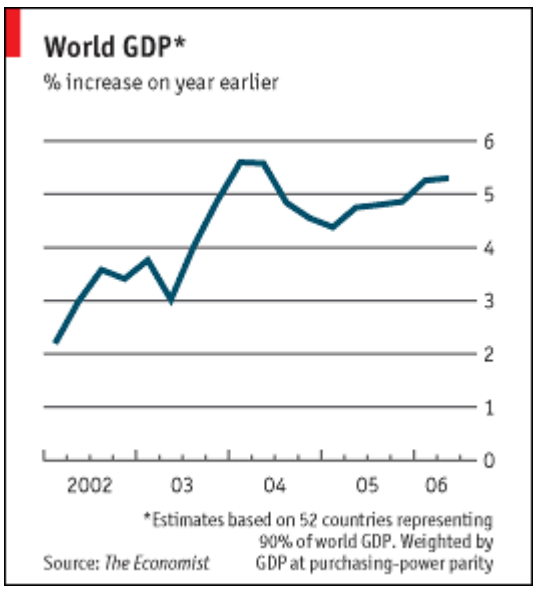
America's GDP growth in the second quarter was revised upwards to an annual rate of 2.9%, from an initial estimate of 2.5%. But this was still much slower than its 5.6% growth in the previous quarter. Consumer spending rose by an annual rate of 2.6%, down from 4.8% in the first quarter. **Consumer confidence** in America continues to slide. The Conference Board's index fell to a nine-month low of 99.6 in August, from 107.0 in July. The decline was attributed to pessimism about the labour market, a weaker housing market and fears of inflation.

Japan has adjusted its method of calculating inflation to reflect changing trends in household spending. Its core consumer-price index (excluding fresh foods) rose by only 0.2% in the year to July. On the previous measure core inflation was running at 0.6%. The headline rate is now 0.3%, compared with 0.8% on the old measure. Japan's unemployment rate dropped to 4.1% in July from 4.2% in the previous month. However, wages declined slightly for the first time in six months.

The **euro** hit an all-time high against the yen of just over ¥150.

Britain's second-quarter GDP grew by 0.8%, its fastest in two years. Annual growth rose from 2.3% to 2.6% on the back of increased consumer spending. Industrial production declined by 0.2%, after increasing by 0.8% in the previous quarter.

The world economy continued to boom in the second quarter: *The Economist's* world GDP indicator rose by 5.3% compared with a year ago, its highest rate for two years.



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Output, demand and jobs

Aug 31st 2006
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2006	2007	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 3.1	Q1	+ 3.5	+ 3.2	+ 3.3	– 1.0	Q1	+ 3.6	Q2	4.8	Jul	5.0
Austria	+ 3.0	Q2	+ 4.0	+ 2.3	+ 2.0	+ 6.2	Jun	+ 0.9	Jun	4.8	Jul	5.2
Belgium	+ 2.8	Q2	+ 3.2	+ 2.4	+ 2.0	+ 1.9	Jun	+ 2.6	May	12.0	Jun†	12.3
Britain	+ 2.6	Q2	+ 3.4	+ 2.4	+ 2.5	– 0.7	Jun	+ 4.0	Jul	5.5	Jun‡	4.8
Canada	+ 3.2	Q1	+ 3.8	+ 3.2	+ 2.9	– 0.4	May	+ 6.4	May	6.4	Jul	6.8
Denmark	+ 2.4	Q2	+ 7.8	+ 2.7	+ 2.3	– 1.0	Jun	+ 3.6	Jun	4.5	Jun	5.8
France	+ 2.6	Q2	+ 4.7	+ 2.0	+ 2.0	+ 2.8	Jun	+ 1.5	Jun	8.9	Jul	9.9
Germany	+ 2.4	Q2	+ 3.6	+ 1.7	+ 1.3	+ 4.5	Jun	nil	Jul	10.6	Jul§	11.8
Italy	+ 1.5	Q2	+ 1.9	+ 1.3	+ 1.1	+ 3.6	Jun	– 0.4	May	7.4	Q1	7.8
Japan	+ 2.0	Q2	+ 0.8	+ 3.0	+ 2.4	+ 5.1	Jul	– 0.6	Jun	4.1	Jul	4.4
Netherlands	+ 2.4	Q2	+ 4.0	+ 2.2	+ 2.1	+ 1.9	Jun	+ 8.8	May	5.4	Jul††	6.7
Spain	+ 3.7	Q2	+ 3.6	+ 3.3	+ 2.8	+ 5.4	Jun	+ 0.7	Jun	8.3	Jun	9.3
Sweden	+ 5.5	Q2	+ 5.6	+ 3.6	+ 2.9	+ 3.1	Jun	+ 7.8	Jul	6.0	Jul†	6.9
Switzerland	+ 3.5	Q1	+ 3.8	+ 2.8	+ 2.0	+ 9.2	Q1	+ 0.8	Jun	3.1	Jul†	3.5
United States	+ 3.6	Q2	+ 2.9	+ 3.4	+ 2.7	+ 4.9	Jul	+ 3.4	Jun	4.8	Jul	5.0
Euro area	+ 2.4	Q2	+ 3.6	+ 2.2	+ 1.8	+ 4.3	Jun	+ 1.5	Jun	7.8	Jun	8.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.8	Q1	+ 1.6	na	na	+12.5	Jul	+ 6.5	Jun	7.7	Jul	8.3
Greece	+ 4.1	Q2	na	na	na	+ 2.6	Jun	+ 6.9	May	9.7	Q1	10.4
Iceland	+ 5.0	Q1	na	na	na	na		na		1.3	Jun†	2.1
Ireland	+ 5.8	Q1	+ 4.4	na	na	+ 3.6	Jun	+ 6.3	Jun	4.4	Jul	4.3
Luxembourg	+ 7.3	Q1	na	na	na	– 1.4	May	– 4.7	Jun	4.0	Jun	3.9
New Zealand	+ 2.1	Q1	+ 2.3	na	na	– 0.7	Q1	+ 0.9	Q2	3.6	Q2	3.7
Norway	+ 5.4	Q1	+ 2.3	na	na	+ 1.7	Jun	+ 4.6	Jun	3.2	Jul††	4.7
Portugal	+ 1.0	Q1	+ 1.8	na	na	+ 1.7	Jun	+ 4.7	Jul	7.3	Q2†	7.2

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡Apr-Jun; claimant count rate 3.0% in Jul. §EU harmonised rate 8.2% in Jun. ††May-Jul.

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Prices and wages

Aug 31st 2006
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2006	2007	latest		year ago	latest		year ago
Australia	+ 4.0	Q2	+ 2.5	+ 3.0	+ 2.8	+ 9.9	Q2	+ 6.9	+ 4.7	Q2	+ 5.8
Austria	+ 1.5	Jul	+ 2.3	+ 2.0	+ 1.8	+ 3.9	Jul	+ 1.1	+ 2.7	Jul	+ 2.3
Belgium	+ 1.6	Aug	+ 3.1	+ 2.2	+ 1.9	+ 6.3	Jul	+ 1.9	+ 2.3	Apr	+ 2.6
Britain	+ 2.4	Jul*	+ 2.3	+ 2.1	+ 1.9	+ 2.8	Jul	+ 3.1	+ 4.3	Jun†	+ 4.1
Canada	+ 2.4	Jul	+ 2.0	+ 2.3	+ 2.1	+ 2.2	Jun	+ 0.1	+ 0.3	May	+ 1.0
Denmark	+ 2.0	Jul	+ 2.0	+ 2.0	+ 2.0	+ 4.6	Jul	+ 4.7	+ 2.9	Q1	+ 3.1
France	+ 1.9	Jul	+ 1.7	+ 1.9	+ 1.6	+ 3.9	Jun	+ 2.9	+ 3.1	Q2	+ 3.0
Germany	+ 1.7	Aug	+ 1.9	+ 1.9	+ 2.3	+ 4.6	Jul	+ 2.5	+ 1.0	Jun	+ 0.9
Italy	+ 2.2	Aug	+ 2.0	+ 2.2	+ 2.0	+ 6.2	Jun	+ 3.7	+ 2.9	Jun	+ 3.0
Japan	+ 0.3	Jul	− 0.3	+ 0.5	+ 0.6	+ 3.4	Jul	+ 1.6	− 0.3	Jul	+ 2.5
Netherlands	+ 1.3	Jul	+ 1.6	+ 1.5	+ 1.5	+ 5.8	Jun	+ 5.0	+ 1.9	Jul	+ 0.7
Spain	+ 4.0	Jul	+ 3.3	+ 3.7	+ 3.0	+ 6.4	Jul	+ 4.6	+ 3.0	Q1	+ 2.5
Sweden	+ 1.7	Jul	+ 0.3	+ 1.4	+ 1.8	+ 3.7	Jul	+ 3.7	+ 3.8	Jun	+ 3.0
Switzerland	+ 1.4	Jul	+ 1.2	+ 1.3	+ 1.3	+ 2.9	Jul	+ 1.1	+ 1.0	2005	+ 0.9
United States	+ 4.1	Jul	+ 3.2	+ 3.5	+ 2.6	+ 4.2	Jul	+ 4.7	+ 3.8	Jul	+ 2.9
Euro area	+ 2.4	Jul	+ 2.2	+ 2.2	+ 2.1	+ 5.8	Jun	+ 4.0	+ 2.2	Q1	+ 3.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.9	Jul	+ 1.0	na	na	+ 6.0	Jul	+ 4.0	+ 2.9	Q2	+ 3.7
Greece	+ 3.8	Jul	+ 3.9	na	na	+ 7.2	Jul	+ 5.1	na		na
Iceland	+ 8.6	Aug	+ 3.7	na	na	+11.5	Aug	+ 4.3	+10.2	Jul	+ 6.6
Ireland	+ 4.2	Jul	+ 2.4	na	na	− 0.2	Jul	+ 0.2	+ 2.2	Q1	+ 6.4
Luxembourg	+ 2.9	Jul	+ 2.6	na	na	+ 7.3	Jun	+ 6.4	+ 2.7	May	+ 2.0
New Zealand	+ 4.0	Q2	+ 2.8	na	na	+ 7.8	Q2	+ 4.7	+ 3.3	Q2	+ 2.6
Norway	+ 2.2	Jul	+ 1.4	na	na	+13.7	Jul	+19.3	+ 3.6	Q2	+ 3.8
Portugal	+ 2.3	Jul	+ 2.2	na	na	+ 4.8	Jul	+ 4.1	+ 1.0	Jun	− 0.5

*RPI inflation rate 3.3% in Jul. †Apr-Jun.

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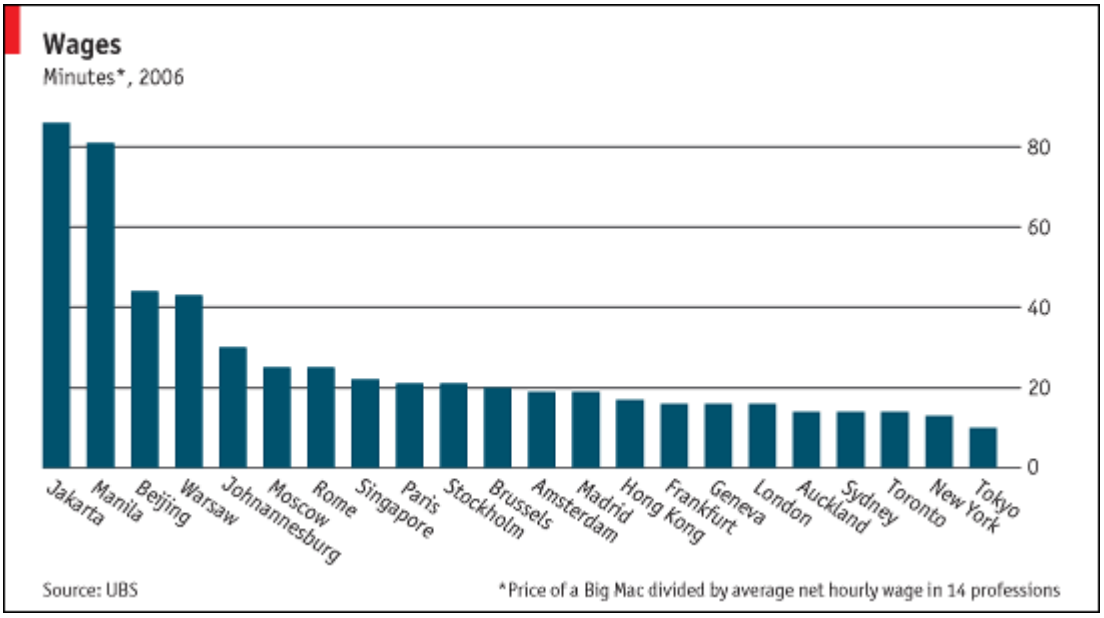
Wages

Aug 31st 2006
From The Economist print edition



The Economist's Big Mac index provides a rough measure of the purchasing power of a currency. UBS, a bank, uses the same burger to measure the purchasing power of local wages. It divides the price of a Big Mac by the average net hourly wage in cities around the world. A worker from Jakarta must toil for almost 1½ hours to buy a Big Mac, but a Moscow wage buys the burger in 25 minutes and a Tokyo salary buys one in just ten.

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Money and interest rates

Aug 31st 2006
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Aug 30th 2006)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+10.2	+ 9.6	Jun	6.19	5.62	5.85	5.66	5.06	6.82
Britain	+ 5.4	+13.1	Jul	4.92	4.53	4.87	4.54	4.15	5.62
Canada	+15.5	+ 6.5	Jul	4.13	2.76	4.03	4.11	3.77	5.39
Denmark	+10.3	+ 7.4	Jul	3.20	2.20	3.61	3.78	3.13	5.28‡
Japan	+ 3.2	+ 0.5	Jul	0.34	0.02	0.65	1.68	1.35	1.88
Sweden	+ 0.5	+11.0	Jul	2.54	1.49	3.27	3.70	2.97	3.83
Switzerland	- 1.3	+ 0.8	Jul	1.67	0.76	1.97	2.50	1.87	2.59
United States	+ 0.2	+ 4.9	Jul	5.23	3.67	4.83	4.78	4.04	5.75
Euro area†	+ 7.4	+ 7.8	Jul	3.26	2.13	3.50	3.76	3.08	4.39

*Narrow: M1 except Britain notes and coin and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡New series. Benchmarks: US 30-year 4.91%, Japan No. 280 1.66%. Central bank rates: US fed funds 5.25%, ECB refinancing 3.00%, BOJ overnight call 0.25%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, JPMorgan Chase, Lehman Brothers, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Aug 31st 2006
From The Economist print edition

2000=100

	Aug 22nd	Aug 29th*	% change on one month	% change on one year
Dollar index				
All items	173.2	171.7	– 2.3	+ 30.4
Food	133.3	132.8	– 2.9	+ 9.3
Industrials				
All	224.9	222.0	– 1.9	+ 53.2
Nfa†	150.2	146.9	– 4.6	+ 14.3
Metals	265.6	262.9	– 1.0	+ 70.9
Sterling index				
All items	139.1	137.6	– 3.6	+ 22.9
Euro index				
All items	125.0	124.5	– 2.4	+ 24.6
Yen index				
All items	187.2	186.3	– 0.9	+ 36.7
Gold				
$ per oz	622.28	621.85	– 2.8	+ 44.4
West Texas Intermediate				
$ per barrel	72.57	69.75	– 7.0	– 0.2

*Provisional. †Non-food agriculturals.

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Stockmarkets

Aug 31st 2006
From The Economist print edition

Market indices

	Aug 30th	2006 high	2006 low	% change on one week	% change on record high	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
Australia (All Ordinaries)	5,032.2	5,318.2	4,708.8	- 0.3	- 5.4	+ 6.9	+11.4
Austria (ATX)	3,743.1	4,344.4	3,324.1	+ 0.9	-13.8	+ 2.1	+11.0
Belgium (Bel 20)	3,945.4	3,987.3	3,445.1	+ 1.9	- 1.1	+11.2	+20.9
Britain (FTSE 100)	5,929.3	6,132.7	5,506.8	+ 1.2	-14.4	+ 5.5	+17.2
Canada (Toronto Composite)	12,068.4	12,487.3	10,904.3	- 1.0	- 3.4	+ 7.1	+12.6
Denmark (OMXCB)	367.9	395.5	325.0	+ 1.7	- 7.0	nil	+ 8.8
France (SBF 250)	3,642.2	3,755.6	3,244.2	+ 2.0	-17.0	+10.3	+20.0
France (CAC 40)	5,182.8	5,312.2	4,615.4	+ 2.0	-25.1	+ 9.9	+19.6
Germany (DAX)*	5,867.5	6,140.7	5,292.1	+ 1.6	-27.2	+ 8.5	+18.0
Italy (S&P/MIB)	37,993.0	38,765.0	34,850.0	+ 1.9	-24.2	+ 6.4	+15.8
Japan (Nikkei 225)	15,872.0	17,563.4	14,218.6	- 1.8	-59.2	- 1.5	- 0.7
Japan (Topix)	1,612.7	1,783.7	1,458.3	- 1.7	-44.1	- 2.2	- 1.4
Netherlands (AEX)	470.1	478.0	412.9	+ 2.0	-33.0	+ 7.6	+17.1
Spain (Madrid SE)	1,322.3	1,322.3	1,156.8	+ 1.4	nil	+14.4	+24.4
Sweden (Affarsvarlden Gen)	310.0	333.7	275.2	+ 1.9	-22.5	+ 5.7	+16.6
Switzerland (Swiss Market)	8,183.4	8,183.4	7,154.9	+ 1.3	- 2.7	+ 7.9	+15.7
United States (DJIA)	11,382.9	11,642.7	10,667.4	+ 0.8	- 2.9	+ 6.2	+ 6.2
United States (S&P 500)	1,304.3	1,325.8	1,223.7	+ 0.9	-14.6	+ 4.5	+ 4.5
United States (NASDAQ Comp)	2,185.7	2,370.9	2,020.4	+ 2.4	-56.7	- 0.9	- 0.9
Europe (FTSEurofirst 300)†	1,375.5	1,405.6	1,238.7	+ 1.6	-19.3	+ 7.8	+17.3
Euro area (FTSE Euro 100)†	1,173.9	1,198.7	1,050.0	+ 1.8	-24.3	+ 7.8	+17.3
World (MSCI)‡	1,358.7	1,406.3	1,243.9	+ 0.8	- 6.2	+ 8.0	+ 8.0
World bond market (Citigroup)††	648.3	648.5	612.1	+ 0.4	- 2.8	+ 4.5	+ 4.5

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Aug 31st 2006
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2006	2007	Exchange rate trade-weighted† 2000=100 Aug 30th	year ago	Currency units per $ Aug 30th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2006‡
Australia	− 11.9	Jun	− 40.6	Q1	− 5.7	− 5.4	118.5	115.8	1.31	1.33	2.49	1.68	1.12	+ 0.9
Austria	− 1.3	Jun	+ 6.4	Q1	+ 0.4	+ 0.5	105.6§	104.6	0.78	0.81	1.49	–	0.67	− 1.9
Belgium	+ 14.9	Jun	+ 7.3	Mar	+ 1.5	+ 1.6	107.4§	106.1	0.78	0.81	1.49	–	0.67	− 0.4
Britain	−132.1	Jun	− 52.3	Q1	− 2.8	− 2.9	102.5	99.2	0.52	0.56	–	0.67	0.45	− 3.4
Canada	+ 60.2	Jun	+ 28.6	Q2	+ 2.3	+ 1.6	129.7	121.4	1.11	1.19	2.12	1.43	0.95	+ 2.2
Denmark	+ 8.4	Jun	+ 5.5	Jun	+ 2.2	+ 1.9	106.5	105.9	5.81	6.06	11.1	7.46	4.97	+ 3.3
France	− 32.3	Jun	− 33.4	Jun	− 1.8	− 1.5	108.3§	106.8	0.78	0.81	1.49	–	0.67	− 2.9
Germany	+186.4	Jun	+106.2	Jun	+ 3.5	+ 3.5	109.9§	108.1	0.78	0.81	1.49	–	0.67	− 3.1
Italy	− 19.9	May	− 34.7	Jun	− 1.7	− 1.5	107.9§	106.5	0.78	0.81	1.49	–	0.67	− 4.2
Japan	+ 79.0	Jun	+164.6	Jun	+ 3.7	+ 3.6	79.7	85.7	117	111	223	150	–	− 5.2
Netherlands	+ 39.5	Jun	+ 46.2	Q2	+ 5.9	+ 5.8	108.3§	106.8	0.78	0.81	1.49	–	0.67	− 0.5
Spain	−103.2	Jun	− 91.6	May	− 7.9	− 7.8	105.8§	104.8	0.78	0.81	1.49	–	0.67	+ 1.1
Sweden	+ 19.4	Jul	+ 24.1	Q2	+ 6.7	+ 6.0	98.1	96.2	7.21	7.59	13.7	9.25	6.16	+ 1.7
Switzerland	+ 7.7	Jul	+ 51.7	Q1	+12.7	+11.9	105.9	106.9	1.23	1.26	2.34	1.58	1.05	− 0.2
United States	−830.2	Jun	−808.5	Q1	− 6.7	− 6.8	83.2	84.9	–	–	1.91	1.28	0.85	− 3.6
Euro area	− 13.5	Jun	− 52.1	Jun	− 0.4	− 0.3	118.9	116.3	0.78	0.81	1.49	–	0.67	− 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 11.0	Jun	+ 11.0	Jun	na	na	109.0§	107.5	0.78	0.81	1.49	–	0.67	+ 2.2
Greece	− 37.7	May	− 25.0	Jun	na	na	104.8§	103.7	0.78	0.81	1.49	–	0.67	− 3.0
Iceland	− 1.9	Jun	− 3.1	Q1	na	na	87.4**	101.4	70.2	62.7	134	90.1	60.0	+ 2.0
Ireland	+ 38.1	Jun	− 5.6	Q1	na	na	113.7§	111.3	0.78	0.81	1.49	–	0.67	− 0.3
Luxembourg	− 5.1	Jun	+ 3.9	Q1	na	na	107.4§	106.1	0.78	0.81	1.49	–	0.67	− 1.7
New Zealand	− 4.6	Jul	− 10.1	Q1	na	na	126.6	135.7	1.56	1.44	2.97	2.00	1.33	+ 4.6
Norway	+ 59.0	Jul	+ 50.2	Q1	na	na	108.6	111.3	6.29	6.39	12.0	8.07	5.37	+ 18.5
Portugal	− 22.7	May	− 16.6	Jun	na	na	105.7**	106.0	0.78	0.81	1.49	–	0.67	− 5.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, June average. ‡OECD forecast. **IMF, April average.

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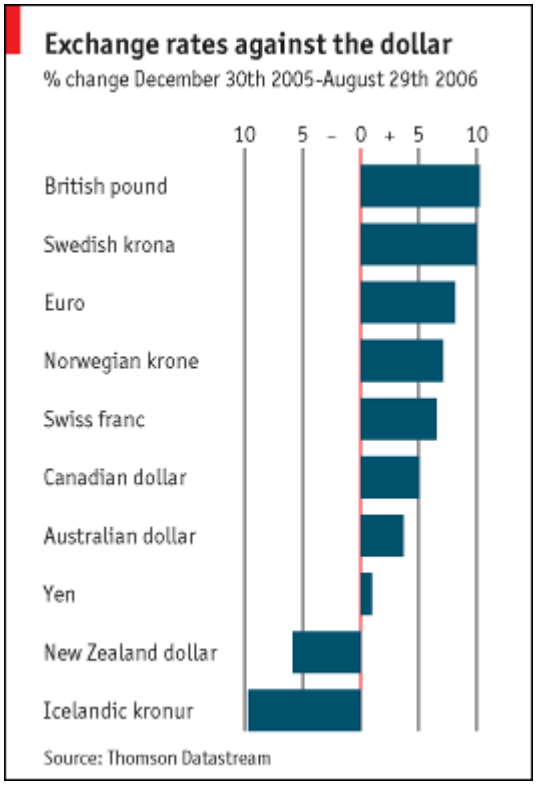
Exchange rates against the dollar

Aug 31st 2006
From The Economist print edition



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Overview

Aug 31st 2006
From The Economist print edition

Brazil's central bank cut its key interest rate by a half point, to 14.25%. To curb inflation, **Hungary's** central bank increased rates by half a percentage point to 7.25%, its third raise in a row. **South Africa's** monetary authorities may have to follow suit: consumer-price inflation quickened, rising by 5.0% in the year to July.

In **South Korea** industrial production rose by 4.4% in the year to July.

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Official reserves

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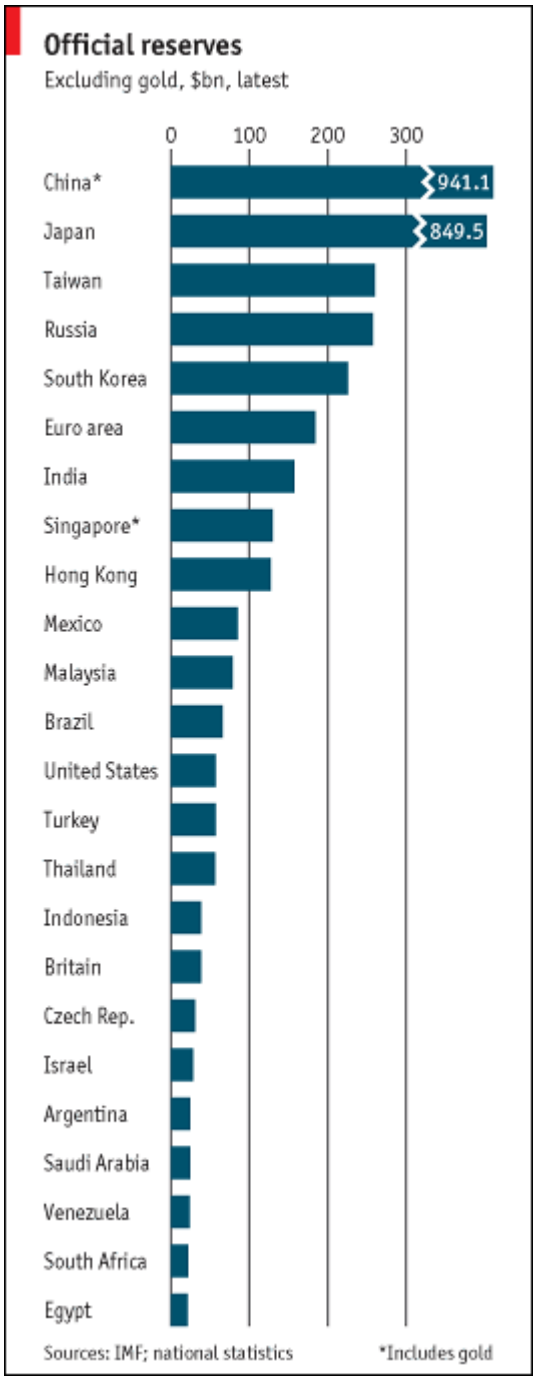
Asia has squirreled away the bulk of the world's foreign-exchange reserves. In the past year China added $230 billion to its stash, overtaking Japan as the biggest hoarder. The reserve build-up may have been motivated by prudence or mercantilism. It may reflect the region's fear of another financial crisis, or it may be a by-product of countries' efforts to keep their currencies cheap so as to conquer foreign markets.



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Economy

Aug 31st 2006
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+11.3	Q2	+16.7	Jul	+ 1.0	Jul	+127.0	Jul	+160.8	2005	941.1	Jun
Hong Kong	+ 5.2	Q2	+ 7.0	Q1	+ 2.3	Jul	−14.2	Jul	+20.8	Q1	127.4	Jul
India	+ 9.3	Q1	+ 9.6	Jun	+ 7.7	Jun	−41.3	Jul	−10.6	Q1	157.1	Jul
Indonesia	+ 5.2	Q2	− 1.6	May	+15.2	Jul	+33.5	Jun	+ 3.8	Q1	38.5	Jun
Malaysia	+ 5.9	Q2	+ 7.0	Jun	+ 4.1	Jul	+27.1	Jun	+19.5	Q1	78.8	Jul
Pakistan	+ 6.6	2006†	+11.6	Mar§	+ 7.6	Jul	−12.0	Jun	− 4.8	Q1	11.6	Jun
Philippines	+ 5.5	Q2	− 4.3	Jun	+ 6.4	Jul	− 3.8	Jun	+ 2.9	Mar	18.2	Jul
Singapore	+ 8.1	Q2	+19.6	Jul	+ 1.1	Jul	+33.0	Jul	+38.3	Q2	129.9	Jul
South Korea	+ 5.3	Q2	+ 4.4	Jul	+ 2.3	Jul	+17.0	Jul	+ 6.0	Jul	225.7	Jul
Taiwan	+ 4.6	Q2	+ 7.9	Jul	+ 0.8	Jul	+11.3	Jul	+20.6	Q2	260.4	Jul
Thailand	+ 6.0	Q1	+ 6.1	Jul	+ 4.4	Jul	− 2.3	Jul	+ 2.8	Jul	56.4	Jun
Argentina	+ 8.6	Q1	+ 8.8	Jul	+10.6	Jul	+11.5	Jul	+ 6.7	Q1	24.4	Jun
Brazil	+ 3.4	Q1	− 0.6	Jun	+ 4.0	Jul	+45.3	Jul	+12.5	Jul	66.1	Jul
Chile	+ 4.5	Q2	+ 1.9	Jul	+ 3.8	Jul	+17.0	Jul	+ 0.8	Q1	17.0	Jul
Colombia	+ 3.7	Q2	+10.0	Jun	+ 4.3	Jul	+ 1.1	May	− 2.0	Q1	14.6	Jul
Mexico	+ 4.7	Q2	+ 6.9	Jun	+ 3.1	Jul	− 4.1	Jul	− 1.2	Q1	84.9	Jun
Peru	+ 6.9	Jun	+11.7	Jun	+ 1.5	Jul	+ 6.3	Jun	+ 1.3	Q2	13.5	Jul
Venezuela	+ 9.2	Q2	+13.7	May	+13.5	Jul	+37.2	Q2	+29.5	Q2	23.8	Jun
Egypt	+ 5.9	Q1	+ 4.0	2005†	+ 8.4	Jul	−11.2	Q1	+ 2.1	Q1	21.1	Jul
Israel	+ 6.2	Q2	+12.3	Jun	+ 2.4	Jul	− 7.9	Jul	+ 4.4	Q1	27.9	Jul
Saudi Arabia	+ 6.6	2005‡	na		+ 2.1	Jun	+126.5	2005	+90.7	2005	24.0	Jun
South Africa	+ 3.6	Q2	+ 6.1	Jun	+ 5.0	Jul	− 6.9	Jun	−11.7	Q1	21.6	Jul
Czech Republic	+ 7.4	Q1	+10.5	Jun	+ 2.9	Jul	+ 1.6	Jun	− 3.4	Q1	30.4	Jul
Hungary	+ 3.6	Q2	+11.5	Jun	+ 3.0	Jul	− 3.3	Jun	− 7.9	Q1	20.7	Jul
Poland	+ 5.5	Q2	+14.3	Jul	+ 1.1	Jul	− 2.4	Jun	− 4.2	Jun	16.3	Jul
Russia	+ 5.5	Q1	+ 2.9	Jul	+ 9.6	Jul	+138.6	Jun	+91.4	Q2	257.9	Jul
Turkey	+ 6.4	Q1	+11.4	Jun	+11.7	Jul	−49.4	Jun	−28.7	Jun	56.8	Jun
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+11.7	Q1	+ 6.3	Jun	+ 4.5	Jul	− 2.7	May	− 1.8	May	2.1	Jun
Latvia	+13.5	Q1	+ 5.7	Jun	+ 7.0	Jul	− 3.6	Jun	− 2.3	May	3.2	Jun
Lithuania	+ 7.7	Q2	na		+ 4.4	Jul	− 4.1	Jun	− 2.1	May	4.1	Jun
Slovakia	+ 6.2	Q2	+12.1	Jun	+ 5.0	Jul	− 2.9	Jun	− 4.7	Apr	15.5	Jun
Slovenia	+ 5.1	Q1	+ 4.3	Jun	+ 2.0	Jul	− 1.8	Jun	− 0.3	Jun	8.6	May

*Excluding gold, except Singapore and China; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate. §New series.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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Financial markets

Aug 31st 2006
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Aug 30th		Dec 30th 2005	
	Aug 30th	year ago	Aug 30th	% a year		one week	in local currency	in $ terms
China	7.96	8.10	15.2	3.20	1,740.1	+2.7	+ 42.5	+ 44.5
Hong Kong	7.78	7.77	14.8	4.30	17,284.7	+1.1	+ 16.2	+ 15.8
India	46.5	44.1	88.7	6.38	11,723.9	+2.8	+ 24.8	+ 20.7
Indonesia	9,120	10,300	17,382	12.04	1,425.2	- 0.9	+ 22.6	+ 32.3
Malaysia	3.68	3.77	7.01	3.85	958.1	+1.0	+ 6.5	+ 9.4
Pakistan	60.4	59.7	115	10.02	10,086.3	- 1.5	+ 5.5	+ 4.5
Philippines	51.0	56.3	97.1	7.31	2,296.8	- 0.8	+ 9.6	+ 14.1
Singapore	1.57	1.68	3.00	3.50	2,471.4	nil	+ 5.3	+ 11.2
South Korea	962	1,041	1,833	4.69	1,341.4	+1.2	- 2.8	+ 2.2
Taiwan	32.9	32.8	62.7	1.79	6,587.1	+0.5	+ 0.6	+ 0.4
Thailand	37.6	41.3	71.6	5.40	684.5	- 1.9	- 4.1	+ 4.6
Argentina	3.10	2.91	5.90	10.13	1,660.4	+0.7	+ 7.6	+ 5.2
Brazil	2.13	2.37	4.06	14.69	36,313.4	+2.3	+ 8.5	+ 19.0
Chile	537	541	1,024	5.04	10,230.7	+1.7	+ 11.1	+ 5.9
Colombia	2,394	2,304	4,563	6.16	9,523.5	- 0.3	+ 0.1	- 4.4
Mexico	10.9	10.8	20.7	7.02	21,331.1	+2.8	+ 19.8	+ 17.4
Peru	3.24	3.28	6.17	4.50	9,849.8**	- 0.2	+105.1	+117.5
Venezuela	2,678§	2,502§	5,105	10.24	35,136.9	+0.2	+ 72.3	+ 66.3
Egypt	5.74	5.77	10.94	8.85	53,648.6	+5.0	- 3.1	- 3.1
Israel	4.37	4.53	8.33	5.69	819.0	- 1.4	- 1.1	+ 4.2
Saudi Arabia	3.75	3.75	7.15	5.22	11,111.9	- 2.2	- 33.5	- 33.5
South Africa	7.08	6.45	13.5	9.30	22,051.4	+1.8	+ 21.9	+ 9.2
Czech Republic	22.0	24.0	41.9	2.36	1,434.3	+0.5	- 2.6	+ 9.0
Hungary	214	199	409	7.63	22,322.0	+0.9	+ 7.4	+ 7.2
Poland	3.07	3.28	5.85	4.19	43,787.2	+0.6	+ 23.0	+ 30.4
Russia	26.7	28.5	51.0	11.50	1,651.5‡	+0.2	+ 36.5	+ 46.7
Turkey	1.48	1.34	2.82	19.37	36,897.2	- 0.6	- 7.2	- 15.2
EM (MSCI)*	1.00	1.00	1.91	na	776.9	+0.9	+ 10.0	+ 10.0
EMBI+†	1.00	1.00	1.91	na	388.5	+0.4	+ 5.4	+ 5.4

* Emerging Mkts. †JPMorgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Trading market value. **Aug 29th.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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